



The engine of industry
Wärtsilä Annual Report 2006

Contents

Business review

- 1 Wärtsilä in brief
- 2 2006 in brief
- 4 Letter to the Shareholders
- 6 Strategy
- 10 Ship Power
- 12 Services
- 14 Power Plants
- 16 Manufacturing
- 17 Operative risks and risk management
- 19 Corporate Governance
- 24 Board of Directors
- 25 Board of Management
- 26 Corporate Management
- 26 Business Boards

Financial review 2006

- 27 Contents
- 28 Five Years in Figures
- 30 Calculation of Financial Ratios
- 31 Review by the Board of Directors 2006
- 40 Consolidated Financial Statements
 - 40 Income Statement
 - 41 Balance Sheet
 - 42 Cash Flow Statement
 - 43 Statement of Changes in Shareholders' Equity
 - 44 Accounting Principles for the Consolidated Accounts
- 48 Notes to the Consolidated Financial Statements

- 65 Parent Company Financial Statements
 - 65 Income Statement
 - 65 Balance Sheet
 - 67 Cash Flow Statement
 - 68 Accounting Principles for the Parent Company
- 69 Notes to the Parent Company Financial Statements
- 73 Proposal of the Board
- 74 Auditors' Report
- 75 Quarterly Figures 2005–2006
- 76 Shares and Shareholders
- 81 Wärtsilä on the Capital Markets 2006

Sustainability

- 84 Wärtsilä and sustainability
- 88 Economic performance
- 90 Products, R&D and the environment
 - 94 Products and environmental aspects
 - 96 Ship Power Solutions
- 102 Services
 - 106 Power Plant Solutions
 - 112 Boiler plants
- 114 Environmental performance
- 118 Personnel and social performance
- 124 Summary of key figures
- 125 Report scope
- 125 Reporting profile
- 126 Assurance statement
- 127 GRI content index

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Wärtsilä's Annual Report consists of three parts; the Business Review, the Financial Review and the Sustainability Review. In 2005 the parts were published separately but in the 2006 annual report the parts have been combined. Information on personnel is contained in the social responsibility section of the Sustainability Review. R&D is described in the products and environment section of the Sustainability Review. You can also read more about Wärtsilä on the company website.

WARTSILA.COM

Wärtsilä in brief

Wärtsilä enhances the business of its customers by providing them with complete lifecycle power solutions. When creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products, solutions and services. Through innovative products and services, Wärtsilä sets out to be the most valued business partner of all its customers. This is achieved by the dedication of more than 14,000 professionals manning over 130 Wärtsilä offices in almost 70 countries around the world. Wärtsilä's shares are listed on the Helsinki Stock Exchange.

Ship Power

Wärtsilä is a leading provider of ship machinery, propulsion and manoeuvring solutions. Wärtsilä supplies engines and generating sets, reduction gears, propulsion equipment, control systems and sealing solutions for all types of vessels and offshore applications. Wärtsilä commands a strong position in all main marine segments as a supplier of highly rated ship machinery and systems.

Services

Wärtsilä supports its customers throughout the lifecycle of their installations. Wärtsilä provides service, maintenance and reconditioning solutions both for ship machinery and power

plants. In parallel with its main service operations Wärtsilä has launched innovative new services that support its customers' business operations, such as service for multiple engine brands in key ports, predictive and condition-based maintenance, and training.

Power Plants

Wärtsilä is a leading supplier of power plants for the decentralized power generation market. Wärtsilä offers power plants for baseload, peaking and industrial self-generation purposes. In all these main segments Wärtsilä holds a strong position.

Net sales by business area



Personnel by business

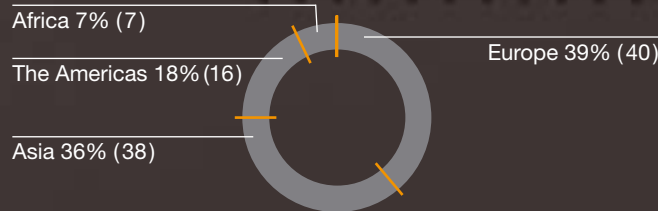


2006 in brief

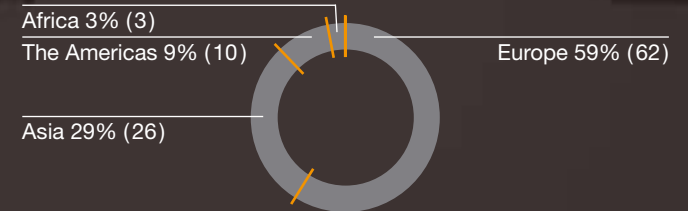
Engines don't run **by talking**

- Booming year in shipbuilding. A record number of vessels were ordered, 2,677, growth of 10% compared to 2005.
- The high oil price continued to intensify the exploration and development of new oil and natural gas reserves, which has also boosted demand in both the offshore and LNG carrier segments.
- All power plant segments relevant to Wärtsilä – baseload, industrial self generation as well as grid stability – were active.
- Order intake for 2006 EUR 4,621.1 million (3,491.1) and the order book stood at EUR 4,438.9 million (2,905.7).
- Net sales from comparable operations grew by over 26% to EUR 3,189.6 million (2,520.3) and profitability developed according to plan. The operating income from comparable operations grew by over 29% to EUR 261.6 million (202.5).
- Development of the company continued and several strategic acquisitions were made in the Ship Power and Services businesses.
- Increasing penetration of the Asian shipbuilding market among others with the establishment of a joint venture to manufacture large, low-speed marine engines in China.
- Investments in additional capacity in both engine and propeller manufacturing.

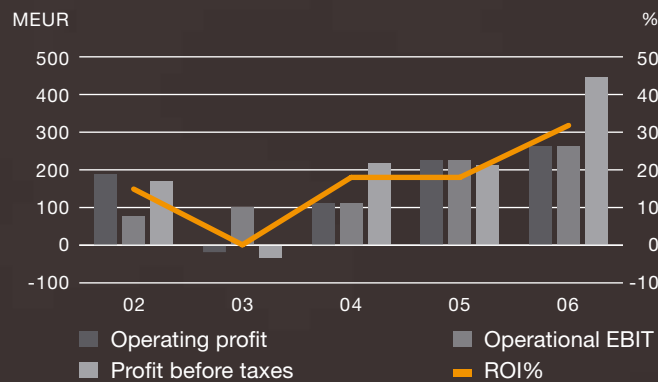
Net sales by market area



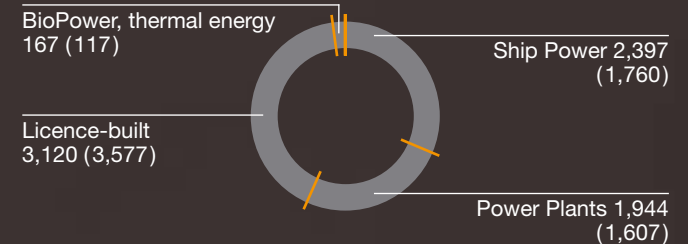
Personnel by market area



Result



Megawatts delivered



We are doers

Key ratios

MEUR	2006	10-12/2006	7-9/2006	4-6/2006	1-3/2006	2005	IFRS 2004	FAS 2004
Net sales	3,189.6	985.9	766.8	845.0	591.9	2,638.8	2,478.2	2,478.2
Ship Power	984.7	404.3	183.8	244.9	151.6	710.3	631.2	631.2
Services	1,266.5	350.4	312.0	304.4	299.7	1,093.1	936.8	936.8
Power Plants	934.2	227.8	274.2	292.4	139.7	710.3	651.9	651.9
Imatra Steel						119.0	254.4	254.4
Operational EBIT	261.6	99.2	56.3	70.2	35.9	224.3	112.0	132.0
Power Businesses	261.6	99.2	56.3	70.2	35.9	202.5	87.7	111.6
Imatra Steel						21.8	24.3	20.4
Depreciation and writedowns ¹	-71.6	-18.2	-17.9	-17.9	-17.6	-71.6	-74.3	-100.0
Power Businesses	-71.6	-18.2	-17.9	-17.9	-17.6	-67.2	-62.0	-87.6
Imatra Steel						-4.4	-12.3	-12.4
Operating result	261.6	99.2	56.3	70.2	35.9	224.3	112.0	239.8
Power Businesses	261.6	99.2	56.3	70.2	35.9	202.5	87.7	111.6
Imatra Steel						21.8	24.3	20.4
Capital gains ³	123.9	-	-	123.9	-	-	107.7	107.7
Profit before taxes	446.8	141.3	61.4	204.1	40.0	212.4	217.3	236.5
Earnings per share, EUR	3.72	1.13	0.44	1.60	0.55	1.80	1.42	1.75
Balance sheet total	3,187.6	3,187.6	3,104.0	3,129.5	3,102.0	2,868.6	2,397.3	2,326.7
Interest-bearing liabilities, gross	270.4	270.4	331.7	434.7	576.0	403.6	320.0	319.5
Cash and bank balances	179.4	179.4	142.6	137.2	114.8	119.6	169.6	168.5
Operating result, %	8.2	10.1	7.3	8.3	6.1	8.5	4.5	9.7
Operational EBIT, %	8.2	10.1	7.3	8.3	6.1	8.5	4.5	5.3
Power Businesses ²	8.2	10.1	7.3	8.3	6.1	8.0	3.9	5.0
Imatra Steel ²						18.3	9.5	8.0
ROI, %	31.8	-	-	-	-	18.0	18.0	20.1
Power Businesses ²	31.8	-	-	-	-	18.9	7.5	10.9
Imatra Steel ²						46.0	7.7	16.8
Gearing	0.07	0.07	0.15	0.25	0.41	0.24	0.17	0.18
Megawatts delivered	7,628	2,695	1,803	1,877	1,253	7,061	6,011	6,011
Order book, end of period, Power Businesses	4,438.9	4,438.9	4,108.2	3,772.1	3,415.4	2,905.7	1,855.3	1,855.3
Order intake, Power Businesses	4,621.1	1,317.6	1,090.0	1,190.1	1,023.4	3,491.1	2,791.4	2,791.4
Personnel, end of period	14,346	14,346	13,986	12,918	12,605	12,008	12,475	12,475
Year-end market capitalization	3,898	3,898	3,021	3,110	2,880	2,348	1,441	1,441

¹2004 does not include writedowns included in restructuring.

²Excluding non-recurring costs. ³Capital gains are entered below operating income as required by IFRS.

Dear Shareholders

2006 will go down in history as our fifth consecutive year of growth in terms of contracting for vessel new-builds. Yet another record number of ships, 2,677 (2,442), was ordered. Activity in the tanker segment, for instance, was at levels not seen since the early 1970s. In combination with buoyant demand in the offshore sector, fed by high oil and gas prices, the strong activity in the shipbuilding industry boosted Wärtsilä's Ship Power order intake.

At the same time, vigorous economic activity in most parts of the world, along with under-dimensioned investment in electric power generation, underpinned good demand in our Power Plants business. High prices for fossil fuels and a general need to reduce emissions support the competitive strength of our oil, gas and biofuel solutions.

Wärtsilä Services, which represented 40 percent of total sales in 2006, continued to grow in line with our long-term target by almost 16 percent. High activity in global shipping and our expanding offering of Services products supported the increase in sales of this business.

Record order books boosted sales and investment

The growth in the Group's net sales accelerated throughout the year and, on a comparable basis, was 26.6 percent (13) for the full year. Profitability developed according to plan. A Group EBIT margin of 8.2 percent (8.0) in combination with high sales growth brought total operating income to EUR 261.6 million (202.5). The divestment of shares in Assa Abloy and Ovako supported the good development of earnings per share. Cash flow was strong due to good profitability, favourable working capital development, and divestments.

Healthy profitability and strong cash flow are important cornerstones for the Group's further development. Our investments today are being directed by concentration of the world's shipbuilding in Asia and particularly China, and a drive to broaden competence levels and geographical spread in our Services business. At the same time we are committed to increasing output and productivity at our European engine and

propeller manufacturing plants. We are allocating significant investment to these plants in order to meet the requirements of the record high order book and the expected continuation of strong demand.

Concentration on value-added services

Wärtsilä's ambition is to support its customers as they develop more efficient and environmentally sound ship designs. We are doing this by offering a broad scope of products and designs for ship machinery and propulsion that offers the best available technology for reducing emissions into the air and water. Supported by our worldwide Services network Wärtsilä Ship Power has become the preferred choice for the leading shipbuilders, owners and operators in the world. As the national and international regulatory framework regarding shipping continuously calls for a reduction of harmful emissions Wärtsilä is well positioned to provide the best available technologies for this purpose. We will relentlessly continue to develop this position by adding products, and by enhancing our project handling and service capabilities.

The Power Plants business has reached a position as a leading supplier of turn-key power plants worldwide for baseload generation, industrial self-generation and grid stability. Our plant operation and management services are of growing interest to our customer base. As gas and biofuel power plants gain market share, environmentally sound solutions today form the basis for our competitiveness.

The acquisition in 2006 of ship automation companies in Norway and Singapore, a ship design company in Germany and further acquisitions and greenfield development in our Services network, all support these goals.

A responsible, motivated personnel drives competitiveness and sustainability

Where its employees are concerned, Wärtsilä's aim is to create and maintain a pleasant and safe working environment.

Our growing level of activity requires new talent worldwide and by the end of the year the number of employees had grown to 14,346. The availability of skilled people requires attention in many parts of the world. Employee satisfaction is therefore regularly monitored and significant improvements have been achieved in recent years. Through systematic training programmes we strive to develop and maintain well educated, skilled and motivated personnel who work to the highest ethical standards.

The Sustainability Report, which is part of this Annual Report, has been prepared in compliance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental and social performance.

Growth continues in 2007 and 2008

The good order book and high activity in the markets give us reason to expect our net sales to grow by around 15 percent in 2007. Profitability will exceed 9 percent. Furthermore we expect the growth to continue in 2008.

I would like to thank our shareholders for the trust you have shown our company, our customers for your faith in our products, and all our employees for your undivided efforts.



Ole Johansson



Strategy



Strategy:

Profitable growth as total solutions provider

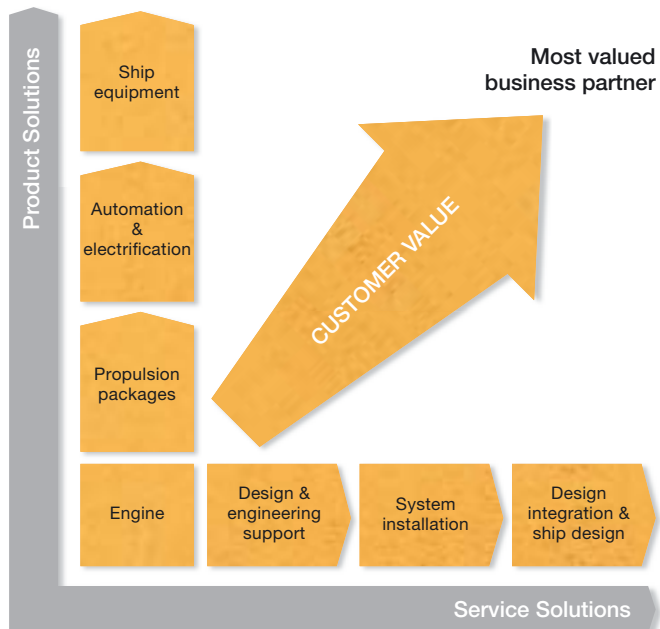
Wärtsilä enhances the business of its customers by providing them with complete lifecycle power solutions. When creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products, solutions and services. Wärtsilä's strategic aim is to strengthen its leading position in its markets and to ensure continued growth by offering customers the best lifecycle efficiency and reliability available. This is made possible by an integrated equipment and service portfolio that matches customers' needs worldwide.

Ship Power

Wärtsilä supplies its products for all types of marine and offshore applications. Wärtsilä commands a strong position in all main marine segments as a supplier of highly rated ship machinery and systems.

Wärtsilä Ship Power's strategic goal is to strengthen its leading position in all its market segments. This business seeks growth by developing new products and services that help customers use their power systems more efficiently and safely. Wärtsilä aims to further enhance its Ship Power concept by integrating components and subsystems into complete solutions that support each customer's business.

Ship Power growth phases



Wärtsilä is deepening its expertise in areas that support this objective: automation, electronics and ship design. Wärtsilä is strengthening its position through organic growth, partnerships and acquisitions.

Asia will continue to be the hub of the world's shipbuilding industry and accordingly Wärtsilä has consolidated its presence in this market by developing its supplier network, boosting production capacity and giving emphasis to lifecycle customer support. Wärtsilä will continue to reinforce its position through partnerships, for example, in both its existing business and in new growth areas.

Services

Wärtsilä supports its customers throughout the lifecycle of their installations. Wärtsilä provides service, maintenance and reconditioning solutions both for ship machinery and power plants. The Group's extensive service network covers spare parts, field service, operations and maintenance services, and several innovative new customer support services. Wärtsilä's service network is unique in the breadth of its scope and geographical coverage.

The goal of Wärtsilä Services is to strengthen its leading position in the marine and power plant markets and to broaden its unique service offering, in order to support its customers' business. Further growth is sought by broadening the geographical presence. Growth will take place organically and through partnership agreements and acquisitions.

Mission

We provide lifecycle power solutions to enhance the business of our customers, whilst creating better technologies that benefit both the customer and the environment.

Vision

We will be the most valued business partner of all our customers.

Values

Energy – Capture opportunities and make things happen
 Excellence – Do things better than anyone else in our industry
 Excitement – Foster openness, respect and trust to create excitement.

Power Plants

Wärtsilä offers power plants for baseload operation, industrial self-generation, and grid stability and peaking purposes. The strengths of Wärtsilä power plants are their flexible design, high efficiency and low emission levels.

The goal of Wärtsilä Power Plants is to strengthen its global position in the decentralized energy generation market. Wärtsilä gas and dual-fuel power plants are highly competitive and attracting increasing interest. Power Plants is increasing market share in the gas power plant segment by offering technology based on reciprocating engines as an alternative to other technologies. Growth in heavy fuel oil power plants is more stable and in this area Wärtsilä is concentrating on carefully defined market segments where growth is higher than average.

Power Plants is also seeking growth by identifying new growth areas that at the same time will reduce the company's sensitivity to business fluctuations.

Strategic steps 2006

- In February Wärtsilä acquired Aker Kvaerner Power and Automation Systems AS (AKPAS) from Aker Kvaerner. The acquisition supports Wärtsilä's growth strategy and it will enhance Wärtsilä's product portfolio in electric propulsion, power distribution and automation, especially in the oil and gas and offshore sectors.
- The alliance formed by Wärtsilä Automation Norway and the American Emerson Process Management increases Wärtsilä's capabilities to offer process automation competence for FPSO vessels.
- In February Wärtsilä announced its acquisition of the entire business of Total Automation Ltd, a Singapore-based public marine automation company, and all Total Automation's subsidiaries. In addition to general marine automation, Total Automation has a strong foothold within the offshore and LNG sectors. The transaction complements Wärtsilä's earlier electrical and automation acquisitions.
- In March Wärtsilä and the Estonian BLRT Grupp agreed on establishing a ship service company in Lithuania to serve the Baltic market.
- The Ciserv service group was integrated into Wärtsilä's Services business in May.
- In May Wärtsilä sold 10 million Assa Abloy AB series B shares, after which Wärtsilä owned 7,270,350 series B shares representing 2.0% of Assa Abloy's share capital and 1.4% of the votes.
- The German INTEC Injectortechnik GmbH, acquired in July, strengthens Wärtsilä's capabilities in installation and services for fuel-injected equipment.
- Wärtsilä Qiyao Diesel Company Ltd (Shanghai), a marine generating set factory jointly owned by Wärtsilä and the Chinese Shanghai Marine Diesel Engine Research Institute (SMDERI), was inaugurated at the end of June. The joint venture marks a strategic step for Wärtsilä to be closer to its Asian customers and to raise its market share in marine auxiliary generating sets.
- In September Wärtsilä, China Shipbuilding Industry Corporation and Mitsubishi Heavy Industries announced the establishment of a joint company to manufacture low-speed marine engines in China. This joint venture is part of Wärtsilä's strategy to better serve the Asian shipbuilding industry and to strengthen its market share in low-speed engines.
- The acquisition in October of the entire business of the Swedish company Stockholms Fartygsreparationer AB gives Wärtsilä a base for further expansion along the Swedish east coast. It also forms part of Wärtsilä's strategy to expand the business operations of Wärtsilä Services.
- In December Wärtsilä acquired the German ship design company group SCHIFFKO. SCHIFFKO specializes in the planning and design of ships especially in the container, research and offshore vessel segments. The acquisition supports Wärtsilä's strategic focus to grow as a system integrator and provider of total solutions to the shipping and shipbuilding market.
- In November Wärtsilä, SKF and Rautaruukki sold the operating companies owned by Oy Ovako Ab, thereby concluding Wärtsilä's plan to focus on its core businesses.

Markets go up and down like pistons in an engine.

R&D

Wärtsilä develops, designs and manufactures competitive engine and propulsion products, along with solutions based on these. In its R&D activities, Wärtsilä's goal is to achieve a leading position in engine technology, and specifically in the areas of environmental technology, reliability, operational economy and automation. The engine portfolio comprises both engines of Wärtsilä design as well as engines designed together with the company's partners. Future development priorities include the design, integration and automation of total systems.

Manufacturing

Wärtsilä maintains an effective and flexible manufacturing structure designed to cope with variable market demand by deploying internal and external capacity accordingly. Wärtsilä works in close collaboration with its partners and suppliers to ensure optimal component deliveries as demand fluctuates. A top priority in this context is to ensure component availability.

Environmental goals

Wärtsilä's overriding goal is to supply power solutions offering high efficiency with low environmental load. The company strives continuously to improve the environmental performance of its products and services and to maintain technological leadership by utilizing new technologies and collaborating with both its customers and other stakeholder groups.

Social responsibility

Wärtsilä's intention is to act as a good corporate citizen wherever it is active. Our business operations and relations with our stakeholders are governed by our Code of Conduct. Wärtsilä seeks to offer its employees an interesting and exciting workplace where openness, respect, trust, equal opportunity and scope for personal development prevail. A further aim is to offer a hazard-free working environment to its employees and contractors, and to minimize the health and safety risks associated with the use of its products and services. Supply chain management and development are integral elements of the company's operations.

Financial targets

The average growth target for corporate annual sales is 6–7%. The growth target of the Ship Power and Power Plants businesses is 4%, and for the Services business 10–15%. Wärtsilä's operating profit target (EBIT) is 8% of net sales over the cycle. Wärtsilä's solvency ratio target is 35–40%.

Wärtsilä prospects 2007

Based on the strong order book, Wärtsilä's net sales are expected to grow 2007 year by around 15%. Profitability will exceed 9%. Wärtsilä sees further possibilities for growth in 2008.

Dividend policy

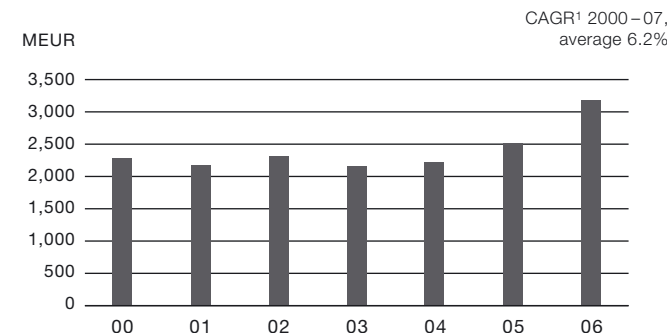
Wärtsilä's target is to pay a dividend equivalent to 50% of operational earnings per share.

Dividend/share, earnings/share

	2006 ¹	2005	2004	2003	2002
Dividend per share	1.75	0.90	0.45	0.50	0.17
Extra dividend per share	-	2.10	0.45	0.67	1.00
Earnings per share (EPS)	3.72	1.80	1.42	-0.44	1.37

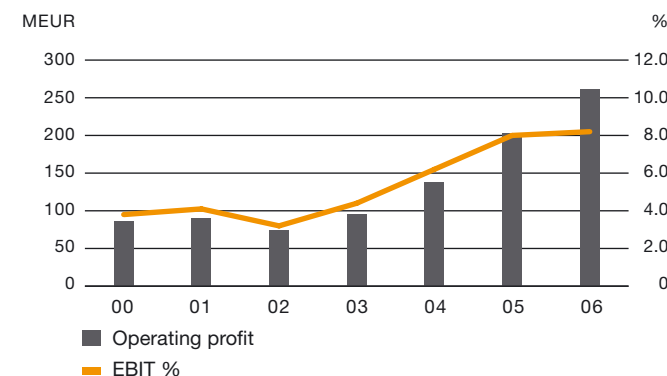
2004–2006 according to IFRS, 2002–2003 according to FAS
¹Proposal by the Board

Growth in net sales from comparable operations



¹ CAGR = Compound Annual Growth Rate

Growth in operating income from comparable operations



Note: 2002–2004 excluding restructuring provisions and effect from treatment of Finnish pension system.

Real doers are successful in all market conditions.

Ship Power: Mastering even the roughest conditions



Wärtsilä supplies its marine products for all types of vessels and offshore applications. The company holds a strong position in all main marine segments as a supplier of highly rated ship machinery and systems. Ship Power's strategy is to strengthen its leading position in the market and to seek continued growth by broadening its product offering and further expanding its presence in Asia. Compared to its competitors Wärtsilä's global sales and service network, broad product range, and expertise in putting together complete packages gives the company a unique position.

Main products

Wärtsilä's reputation in the marine industry is founded on its engine design capabilities, a long manufacturing heritage, and the technical leadership of its solutions. The company has continuously expanded its range of engines and propulsion equipment. Ship Power's strengths include the competitive edge of its products and the comprehensive coverage of its offering:

- Medium-speed diesel and gas engines
- Low-speed engines
- Propulsors, propulsion packages
- Seals
- Bearings
- Automation systems
- Solutions

In its product strategy Wärtsilä's priority is to act as a single supplier to its customers as the Ship Power Supplier. This concept offers shipyards added value by enabling them to concentrate on their core expertise while also reducing the risk of equipment interface problems. For the end user – the shipowner – the single supplier concept means benefits in terms of operation and maintenance.

Customer structure

The Ship Power business's customers are shipyards and shipowners. Wärtsilä must meet the needs and demands of both

these groups. Shipyard decisions are determined by product prices, delivery times and delivery reliability, project management and ease of installation, along with other factors related directly to the shipbuilding process. The priorities for shipowners, on the other hand, are engine reliability, operational economy and support, and the ready availability of service. Another factor affecting their decisions is the type of vessel in question: in the case of sophisticated vessels for special purposes, such as cruise ships, the shipowner plays a much stronger role in the choice of engine than, for example, where cargo vessels are concerned. Other factors bearing on decisions are freight rates, fuel prices, interest rates and the cost of the ship.

Main market segments

- Seaborne transportation
 - Tankers
 - LNG carriers
 - Containerships
 - Bulk carriers
 - General cargo
- Offshore oil exploration and support
- Cruise ships
- Passenger ferries
- Government and naval
- Special vessels

Markets and demand drivers

Demand for new vessels has clearly exceeded supply in recent years and consequently the shipbuilding industry has been booming for some time. The key factors driving the global shipbuilding industry, and therefore demand for Wärtsilä Ship Power products, are global trade and thereby also freight rates, as well as development of the Chinese and other Asian economies.

The need for energy has increased in recent years, which has raised the price of oil, intensifying the exploration and development of new oil and natural gas reserves. Demand has also been extremely buoyant in the past few years for offshore vessels and LNG carriers, an area of particular strength for Wärtsilä products and reflected in growth in Wärtsilä's order book.

Geographically, the hub of the shipbuilding industry today is Asia, headed by Korea and China. Wärtsilä has expanded its presence in Asia in a number of ways including the establishment of new engine and propeller manufacturing companies in China. European shipyards concentrate on special vessels, passenger and cruise ships; for these segments as well, Wärtsilä's product portfolio is extremely well suited.

Market position and competitors

Wärtsilä is the market leader in medium-speed main engines. The largest competitors are the other main suppliers of medium-speed diesel engines, Caterpillar (MAK) and MAN Diesel, which have most of their manufacturing capacity in Europe. In addition to its technically advanced products, Wärtsilä's competitive strengths are its own extensive service network and long-term customer relationships.

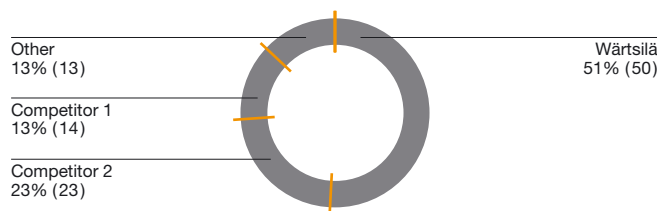
Wärtsilä's low-speed main engines are manufactured under licence, primarily in Asia. The largest competitors are engines designed by MAN Diesel and Mitsubishi Heavy Industries. Wärtsilä has set up a joint venture with Mitsubishi Heavy Industries and the Chinese shipyard company CSIC to manufacture low-speed engines in China. Wärtsilä's aim is to improve the competitiveness of its low-speed engines and further expand its presence in Asia.

The market for auxiliary marine engines is fragmented and competition on prices is intensive. In response to the increase in competition Wärtsilä has established a joint venture company in China concentrating on auxiliary engines. In this segment Wärtsilä's competitors are MAN and its licensed manufacturers, HiMSEN engines produced by Hyundai Heavy Industries, and high-speed engines.

■ Read more about the Ship Power business in the Sustainability section.

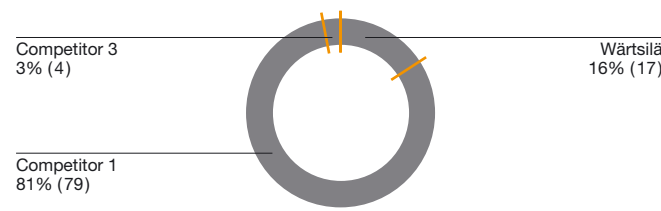
The market position of Wärtsilä's marine engines 2006

Own production Medium-speed main engines



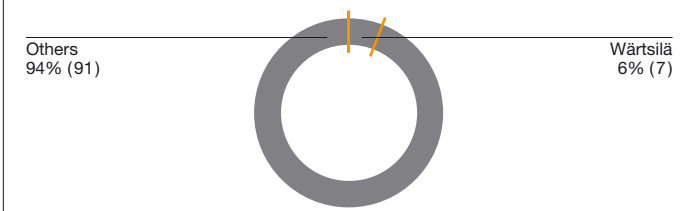
Total market volume 9,200 MW (9,600)

Production of licensees Low-speed main engines



Total market volume 26,600 MW (21,900)

Own production Auxiliary engines



Total market volume 7,600 MW (6,700)

Wärtsilä's own calculation is based on: Lloyd's Register – Fairplay, Clarkson's Research Studies and BRL Shipping Consultants. Market shares based on installed power, numbers in brackets are from Q3/06. The total market is based on the volume of the past 12 months Jan. 1–Dec. 31, 2006. Numbers in brackets reflect the volume of the past 12 months at the end of the previous quarter.

Services: Service support even in the thickest jungle



Wärtsilä offers innovative solutions that support its customers throughout the lifetime of their installations. Wärtsilä provides services and maintenance solutions for both ship machinery and power plants. Wärtsilä Services has approximately 8,500 professionals worldwide maintaining an installed base of 150,000 MW.

Wärtsilä is seeking growth in its Services business in two ways: by introducing innovative services and capabilities that support its customers' business, and by expanding its geographical presence. Growth in Services is achieved through a combination of organic growth, partnerships and acquisitions.

Unique global network provides flexibility

Wärtsilä is present in 130 locations in roughly 70 countries. This global network, wholly owned by Wärtsilä, enables the company to provide its customers with true flexibility in servicing along with optimal risk management. The network allows Wärtsilä to offer and execute complete turnkey projects while keeping control over these projects and catering to the varying needs of its customers.

Wärtsilä has no direct competitors that offer a similar portfolio of services from a single source. Each service category therefore has its own identified set of competitors. Excluding the service networks of other engine manufacturers, there are few global players in the service market; competition is largely local.

A broad range of services to support customers

Wärtsilä Services covers both the Ship Power and the Power Plants businesses in their entirety. Although the predominant service market is Wärtsilä's own installed base, the company is increasingly expanding its offering to include non-engine services and solutions on a larger scale, as well as customers with other engine brands and power solutions.

Wärtsilä is the only service provider able to offer such a large range of services to its industry. The range draws together the technical expertise of the entire organization to meet both local and global requirements.

Wärtsilä divides its services into seven categories:

Wärtsilä's Services

- Engine services
- Automation services
- Reconditioning services
- Propulsion services
- Training services
- Ship services
- Operation and Management services

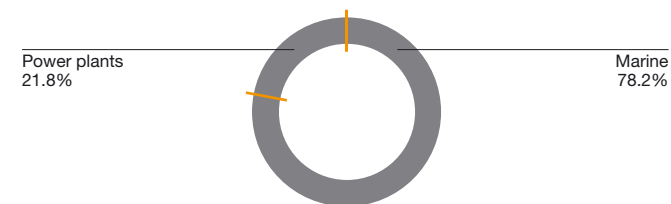
Automation Services support total solutions provider strategy

Acquiring, integrating and developing automation companies has been a step in Wärtsilä's strategy to become a total solutions provider as services broaden the scope of supply to customers and help Wärtsilä gain better control of its value chain from design to lifecycle support. In addition to this Wärtsilä has gained a solid customer base and contacts to projects especially in the North Sea and oil and gas business. Wärtsilä's automation services portfolio includes everything from instrumentation to turnkey engineering packages or conversions. Present in China, France, The Netherlands, Norway, United Arab Emirates, United Kingdom, USA and Singapore, Wärtsilä Automation Services takes care of all the control and instrumentation systems of control rooms, switchboards, ship and machinery automation and controls, alarm and monitoring systems, bridge systems and power management regardless of manufacturer.

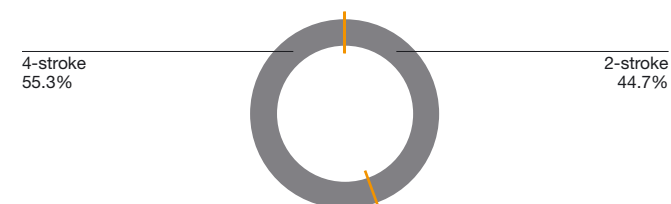
Reconditioning maximizes equipment service life

Wärtsilä provides reconditioning for major components of 2-stroke engines and certain 4-stroke components. Reconditioning enables customers to achieve the maximum service life for their components while meeting present and future regulations requirements. With facilities in Canada, China, Italy, the Netherlands and Singapore, Wärtsilä Reconditioning Services provides reconditioned engine components for all low- and medium-speed engine brands.

Engine base 154,228 MW



Engine base 154,228 MW



Wärtsilä Training Services

As a supplier of complete power plants and ship power installations, Wärtsilä has recognized the need for training not only on engines, but also auxiliary equipment, systems and personnel development. This has marked a natural progression for the Wärtsilä Land & Sea Academy to be able to supply a complete range of services that satisfy the International Maritime and other statutory regulations. Wärtsilä Land & Sea Academy has training centres in the USA, Finland, the Philippines and India.

Increasing growth in O&M

Wärtsilä has a strong position in the market for Operations and Management (O&M) in its Power Plants business, where approximately 40% of new equipment sales include a service agreement. Wärtsilä power plant customers are interested in problem-free, reliable and high-quality power generation and maintenance to support their own business. There are over 135 installations worldwide run by Wärtsilä service personnel.

For marine customers Wärtsilä's global service network provides the same quality of service wherever the ship is sailing. O&M services in the marine market are relatively unexploited. Wärtsilä is targeting increasing growth in this sector by developing new concepts and maintenance solutions to meet the requirements of this market.

Power Plants: Wärtsilä is at home even on the most distant isles



Wärtsilä is a leading supplier of power plants for the decentralized power generation market. Wärtsilä offers power plants for baseload operation, industrial self-generation, and grid stability and peaking purposes.

The strengths of Wärtsilä power plants are their flexible design, high efficiency and low emission levels. Wärtsilä offers both equipment and turnkey deliveries worldwide in accordance with customer needs. The product offering also includes financing arrangements and operations and maintenance services. The Wärtsilä Power Plants business is strong in all its primary market segments.

The main products of the Power Plants business are gas-, oil- and biofuel-fired power plants. Alongside these Wärtsilä offers gas engines for compressor stations and solutions for oil pumping needs.

Baseload generation

Wärtsilä baseload power plants are supplied to developing markets, islands and remote areas. With electricity consumption growing rapidly in these regions, generation capacity is being continuously increased.

Wärtsilä's customers in its baseload segment are independent power producers and electricity utilities. Their priorities are low life-time costs along with reliability, quality and flexibility of fuel choice.

In baseload power generation, traditionally prominent have been power plants running on heavy fuel oil but in recent years demand has also been growing for gas- and biofuel-fired power plants. Wärtsilä's operations and maintenance services give the company an added competitive advantage.

Grid stability services

Wärtsilä also provides solutions for ensuring stable energy production. Demand for stability services is already strong in the USA, where power regulation and generating capacity problems have encouraged the search for new solutions. In the developed countries, gas power plants are the primary alternative and demand for them continues to grow.

A competitor for Wärtsilä's engine technology in the power regulation and spinning reserve market is the gas turbine, which still has a strong position especially in the USA. Wärtsilä gas power plants offer a significant alternative to gas turbines because gas engines are considerably more efficient. High efficiency also means lower emissions, which further improves the competitive edge of Wärtsilä gas power plants.

Customers for Wärtsilä stabilizing plants are independent power producers and electricity utilities. Wärtsilä offers these customers dynamic and flexible product features such as rapid start and

ramp-up to full load, and the capability to operate at varying loads. Further strengths of these power plants are their competitive capacity costs and fast service. The importance of stability and peaking services is growing in western countries as daily fluctuations in electricity consumption continue to increase all the time. Wärtsilä has excellent possibilities to achieve a significant position as a supplier of these services.

Power generation for industry

The third main segment of Wärtsilä's Power Plants business is industry, for which Wärtsilä offers self-generation power plant solutions. A reliable energy supply and low costs are essential for industrial companies to keep their own manufacturing competitive. These power plants run on gas, heavy fuel oil and biofuels, depending on fuel availability. The advantages of Wärtsilä's products, such as low energy costs, reliability and 24/7 service, are notable strengths for this customer group.

Competitive situation and market position

The power plant market is highly fragmented and this is also reflected in its competitive structure. Wärtsilä's largest competitors in its traditional HFO power plant segment are other engine suppliers, some of whom also compete with Wärtsilä in its Ship Power business. Wärtsilä commands a leading position in the category of HFO power plants it offers.

In gas power plants, the competitors are suppliers of both gas engines and gas turbines. Wärtsilä is well positioned to increase its market share further by gaining share from other technologies.

The company's competitors in biofuel plants are local boiler plant manufacturers specific to each market. Wärtsilä power plants that run on liquid biofuels have gained a stronger position in the market.

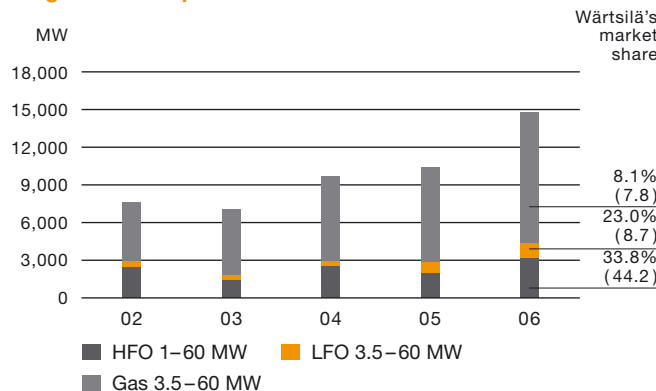
Coal-fired plants are a competitive technology in markets where coal is locally available and where environmental regulations permit its use as a fuel.

Geographical demand and growth

Demand for power plants is strong and Wärtsilä engines, owing to their high efficiency, are competitive. Demand is spread evenly around the world, which reduces the risks associated with single markets and geographical concentration. The high price of oil has had a positive impact on demand for power plants in certain markets. Countries in Africa and the Middle East, as well as other oil-producing countries and Pakistan for example, are investing heavily in new infrastructure. Demand has also been high for gas power plants, notably in Japan. Liquid-biofuelled power plants offer continuous new opportunities for Wärtsilä in both Europe and the developing world. Wärtsilä sees growth potential in the stability services market in North America and other western countries. Russia offers enormous market potential in the oil and gas industry. Recent signs point to considerable growth in demand for energy generation and the need to renew outdated power plant capacity.

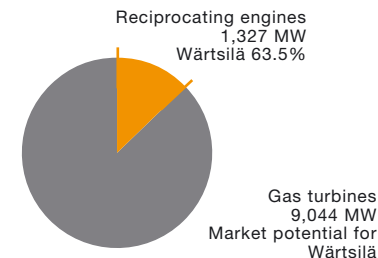
■ Read more about the Power Plants business in the Sustainability section.

Target markets per fuel 2002–2006



Note I: Wärtsilä's gas power plant target markets have changed since Wärtsilä stopped manufacturing and selling high-speed engines (power range < 3.5 MW)
 Note II: The 2006 LFO figure includes liquid biofuels.
 Source: Diesel & gas turbine worldwide, June 2005–May 2006

Gas power plant market



Manufacturing

Flexible manufacturing in all market conditions

Flexible manufacturing model

Wärtsilä's engine manufacturing model focuses primarily on engine assembly and test-running. Wärtsilä also machines certain major components such as engine blocks, cylinder heads, conrods, propellers and propeller shafts. This model ensures flexibility in terms of both multi-engine and propulsion delivery and volumes. The manufacturing centres can easily adapt to fluctuations in demand for different products and also in volume.

Broad supplier network in Europe and Asia supports flexibility

Flexibility in production volumes is supported by a broad supplier network. Component manufacturing and supply are handled by suppliers primarily in Europe but also in Asia. Most of the component groups have several suppliers and Wärtsilä is increasingly seeking to broaden its supplier network in Asia. Wärtsilä's key strategic focus areas in this respect are supplier relations, securing quality and deliveries, and cost.

Engine manufacturing in Europe and growing in Asia

Manufacturing of medium-speed main engines is concentrated in two delivery centres: Vaasa, Finland, and Trieste, Italy. Both centres are designed to produce several engine types. Low-speed main engines are very large and are therefore built close to the shipyard because long-distance transportation of the engines is not feasible. For this reason they are manufactured under licence by several licensees spread around the world. In order to meet the increasing demand in Asia and growing ship-building market in China, Wärtsilä, CSIC and Mitsubishi Heavy Industries have established a joint venture to manufacture low-speed engines in China. Manufacturing will start at the beginning of 2008.

Wärtsilä has also established a joint venture in China for the manufacture of auxiliary generating sets. This factory will run at full capacity in 2007. Initially, the factory will focus on manufacturing the Wärtsilä Auxpac 20 generating sets. Manufacturing of the Wärtsilä Auxpac 26 will start in 2007.

Investments in propulsion manufacturing in Asia

Propulsion equipment manufacturing takes place in Europe and Asia. Wärtsilä has two propeller factories in China and is currently investing in additional capacity at both sites to meet increasing demand for both fixed pitch propellers and thrusters.

Future developments and investments in engine manufacturing

In 2006 Wärtsilä announced investment programmes at both the Vaasa and Trieste delivery centres. Their main aim is to increase efficiency by changing production from assembly cells to a more line-based process, to achieve higher volumes and more flexible manufacturing tools. Additional capacity is expected to be available from mid-2007.



Operative risks and risk management

Risk management principles

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

The risk management function is subordinate to Group Treasury, which reports to the CFO. It reviews the business risk profile, prepares the risk management policy, and develops global and local insurance schemes with insurance companies and brokers. The risk management policy is endorsed by the Board of Directors.

Operational risks

General

A risk assessment is performed in all the major production units every second year. During 2006 the assessment was made in both of the two biggest delivery centres, Vaasa and Trieste. The wider-ranging systematic update of operational risks that was conducted during 2005 covering all Wärtsilä's Businesses and its manufacturing operations has been continued in 2006 so that a task force including members from each Business has been established for each major Group-wide risk. These teams will monitor inter alia the following risks: competition and price risk, supplier and subcontractor risk, customer risk, political and legal risk, environmental risk, product and product liability risk, and property risk. During 2006 Wärtsilä also acquired an automation manufacturing and service business for which a separate risk assessment has been made.

Customer risk

Roughly three-quarters of global shipbuilding now takes place in Asia. The Ship Power Business has responded to this shift by setting up new manufacturing units in China and India. Ship Power sells its products to shipyards but also markets them to shipowners. Wärtsilä is well represented in all the major shipbuilding areas and active in all major vessel segments. That is mitigating both single customer related and geography related risks. Wärtsilä's Services Business has expanded both through acquisitions and organically. The strong business volumes of Wärtsilä's customers have further boosted service sales.

Power plant sales continue to be distributed evenly around the world, which has consequently reduced risks associated with specific customer groups or countries.

Competitive situation and price risk

Demand was strong in all the Businesses during 2006 and price levels either rose or remained stable. Ship Power's largest competitors in main engines are MAN and Caterpillar. No significant changes took place in the competitive situation but Wärtsilä slightly improved its market shares. In the Propulsion Business the competition is more fragmented and varies by product

Wärtsilä's risk management organization 2006

Risks	Policy or other guideline*	Responsible body
Operative risks	Wärtsilä's strategy and business plans	Board of Management Wärtsilä's Businesses
Supply chain risks	Supplier requirements and supplier relationship management	Wärtsilä's Businesses and sourcing function
Technology risks	Patents and industrial rights Product guarantees	Wärtsilä's Businesses and technology function
Product liability and safety	Safety instructions and manuals Risk management policy	Wärtsilä's Businesses and risk management function
Personnel risks	Human resources policy Safety instructions and manuals OHS policy and system (OH&S 18001) Risk management policy	Wärtsilä's Businesses and human resources function
Data security risks	Data security principles	Wärtsilä's Businesses IM function
Environmental risks	Environmental policy Environmental management system (ISO 14001)	Wärtsilä's Businesses and environmental management function
Hazard indemnity and third-party risks	Risk management policy and guidelines	Wärtsilä's Businesses risk management function
Political risk	Risk management policy and guidelines	Wärtsilä's Businesses risk management function
Financing risks	Treasury policy	Wärtsilä's Businesses and treasury function
Reputation risk	Code of Conduct	Wärtsilä's stakeholder relations All Wärtsilä employees

* The policies and guidelines are described in the Group's internal Corporate Manual.

segment. On the Power Plants side, the main competitors are the same companies mentioned above as well as other technologies. Wärtsilä's market position improved, especially in the gas power plant sector. During the review period competitiveness was still affected by component availability and pressure on prices.

In the Services business Wärtsilä has no direct competitors that offer a similar portfolio of services from a single source. Each service category therefore has its own identified set of competitors. Excluding the service networks of other engine manufacturers, there are few global players in the service market; competition is largely local.

Supplier and subcontractor risk

The biggest challenges faced in 2006 concerned the capacity and delivery times of suppliers and subcontractors, coupled with pressure on component prices. The Supply Management function, which was reorganized during last year, has developed its activities by creating closer collaboration with its main suppliers, by emphasizing long-term delivery agreements and also by increasing the number of suppliers of certain critical components. A Supplier Management System was implemented in 2006. The purpose of the system is to control and manage data related to selection, assessment and performance of suppliers.

Product and product liability risk

Launching new products always involves risk. Wärtsilä seeks to control this risk by designing and manufacturing products with all due care and by simulating its products through testing their reliability using design methods such as FMEA. Furthermore a risk elimination tool under implementation is capable of supporting any risk management process and contributes with clear prioritization, responsibility, follow-up and a reporting structure.

Tight delivery schedules create further challenges to ensure the quality of the company's component suppliers. The company

makes warranty provisions to cover any warranty costs that may arise after product delivery. Product liability insurance covers unexpected damage.

Indemnity risk

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

Environmental and social risks

Environmental and social risks are monitored in the same way as other business risks, the main tool being Wärtsilä's management system OpExS (Operational Excellence System). Combined with active dialogue with stakeholders, the OpExS tools – which include environmental and occupational health & safety systems, personnel training and development of personnel competences – help the company to identify and reduce the risks related to its operations, supply chain and products. Wärtsilä's Real Estate unit maintains a real estate register that is used as a basis for assessing the environmental risks related to the company's properties.

Political and legislative risks

Political developments and changes in legislation can have a significant impact on Wärtsilä's business. Wärtsilä actively monitors political and legal developments in its markets, and engages in dialogue with various official bodies in projects of importance to Wärtsilä's operations. Much of this engagement takes place through interest groups and trade organizations. The company monitors legislative changes at both corporate and subsidiary levels.

Commodity risk price

Oil

The direct effect of oil price changes on production in Wärtsilä is quite limited. The indirect effects of oil price volatility on customers are outweighed in importance by the long economic life of the investments and the availability of alternative fuels.

Metals

The Propulsion Business hedges its exposures to different metal prices. These risks are small from the Group's perspective. Metal prices have an indirect effect on engine component costs. This exposure is not hedged but annual agreements are in place to balance the short-term fluctuations.

Electricity

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

Financial risks

The financial risks are presented on page 64 in the notes to the financial statements, note 34.

Corporate Governance

Wärtsilä Corporation applies the guidelines and provisions of its Articles of Association, the Finnish Companies Act and the Helsinki Exchanges.

Wärtsilä also complies with the Corporate Governance recommendations for public listed companies published by Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers (renamed Confederation of Finnish Industries EK).

Tasks and responsibilities of governing bodies

Management of the Wärtsilä Group is the responsibility of the General Meeting of Shareholders, the Board of Directors and the President and CEO. Their duties are for the most part defined by the Finnish Companies Act.

General meetings of shareholders

The supreme decision-making body in the company is a General Meeting of shareholders. It resolves on the issues defined for General Meetings in the Finnish Companies Act and the company's Articles of Association. These include approving the financial statements, deciding on the distribution of dividend, discharging the company's Board of Directors and CEO from liability for the financial year, appointing the company's Board of Directors and auditors, and deciding on their compensation.

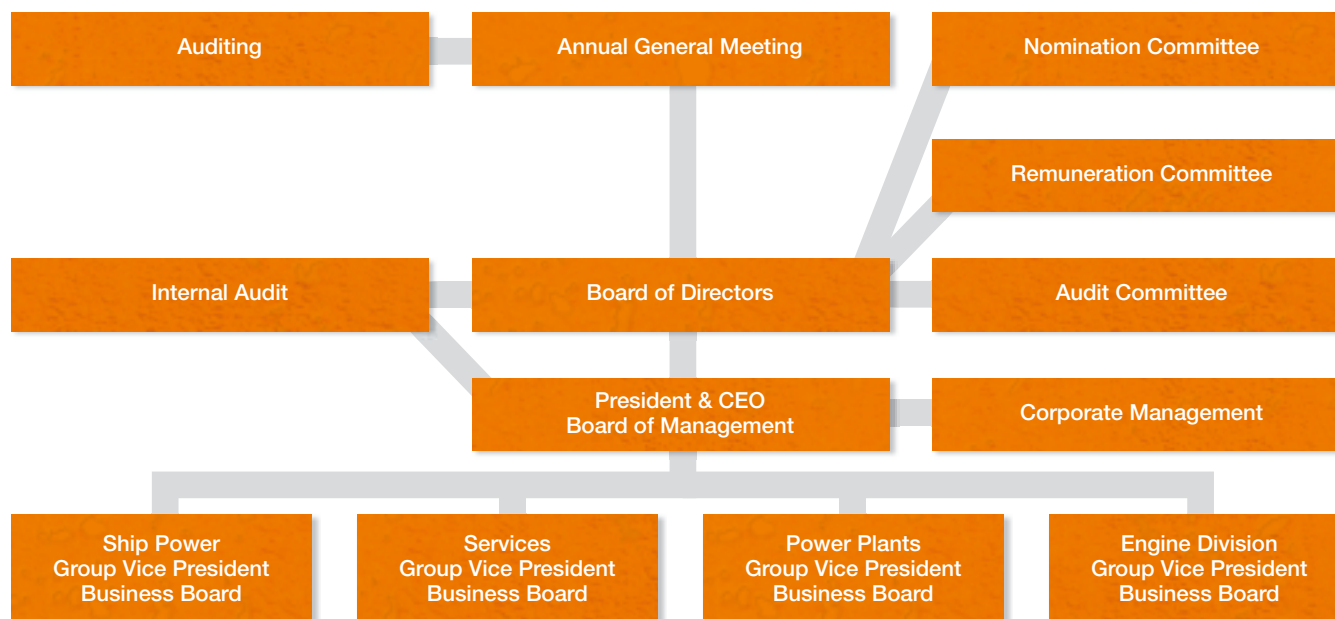
A General Meeting of Wärtsilä Corporation shareholders is held at least once a year. The Annual General Meeting (AGM) must be held no later than the end of June. Under the Articles of Association, an invitation to a General Meeting must be published in at least two daily newspapers chosen by the Board of Directors and commonly distributed in Finland, no earlier than two months and no later than one week prior to the date deter-

mined in the Finnish Companies Act. Wärtsilä also publishes its invitations to General Meetings as stock exchange announcements and on its internet website. Shareholders are, according to the law, entitled to have any matter concerning the company's business and falling within the scope of a General Meeting considered by the Meeting if he or she submits such a request in writing to the Board of Directors early enough for the matter to be included in the notice of meeting.

The Annual General Meeting in 2006 was held on 15 March. The decisions of the AGM can be found on our website.

The Board of Directors

Responsibility for the management of the company and the proper organization of its operations is invested in the company's Board of Directors, which has between five and eight members. Board members serve for one year at a time and are elected by a General Meeting. The Board of Directors is responsible for ensuring that a proposal to be put before a General Meeting concerning the election of a new member to the Board, and of which it is aware, is published in the notice of meeting provided that the proposal is supported by at least 10% of the votes carried by the company's shares and that the proposed individual has given his/her written consent. After publication of the notice of meeting the names of the candidate members will be announced separately provided that the conditions mentioned above are met.



The Board elects a chairman and deputy chairman from among its members. The Board steers and supervises the company's operations, and decides on policies, goals and strategies of major importance.

The principles applied by the Board in its regular work are set out in the Rules of Procedure approved by the Board. The Board has also approved the rules of procedure applied by the Board's committees setting out the main tasks of the committees and their working principles.

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

- the annual and interim financial statements,
- the matters to be put before General Meetings of shareholders,
- the appointment of the President and CEO,
- the appointment of the Executive Vice President and the CEO's deputy, and
- the organization of financial supervision in the company.

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

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

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

The Board also conducts a self-assessment of its performance once a year. The purpose of this assessment is to establish how the Board has executed its tasks during the year and to act as a basis when assessing how the Board functions.

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

The year 2006

During 2006 the chairman of the Board was Antti Lagerroos and the deputy chairman was Göran J. Ehrnrooth. The Board's other members were Heikki Allonen, Risto Hautamäki, Jaakko Iloniemi, Bertel Langenskiöld and Matti Vuoria. All seven members of the Board were independent of the company and six of the members were independent of significant shareholders.

In 2006 the Board of Directors convened 10 times. The average attendance of Board members at these meetings was 93%.

Information on the members of the Board of Directors and their business interests is given on page 24.

The Board's committees

The Board of Directors annually appoints an Audit Committee, a Nomination Committee and a Compensation Committee and any other committees it considers necessary, at its constitutive meeting following the Annual General Meeting. The Board appoints the members of these committees and their chairmen. The Board also has the right to remove a member from a committee. The members of each committee are appointed for the same term of office as the Board itself. The purpose of the Board's committees is to prepare matters to be put before the Board for its decision. The committees have no decision-making authority of their own.

The year 2006

In 2006 the Board appointed an Audit Committee, a Nomination Committee and a Compensation Committee. The Board has approved the written rules of procedure of these committees, the most important points of which are described in the next chapter.

The Audit Committee

The Board of Directors appoints an Audit Committee to assist it in the execution of its task of supervising the company's financial management.

The Board appoints from among its members at least three members to the Committee who are independent of the company, and who have sufficient experience of accounting procedures and the preparation of financial statements.

The Audit Committee considers Wäertsilä's annual and interim financial statements, the accounting principles and the company's financial reporting in general. The Committee assesses the company's compliance with the relevant legal and other provisions, the adequacy of financial supervision and risk management in the company, and the effectiveness of its internal audit function. The Audit Committee may also, via the Board of Directors, submit recommendations to the General Meeting on matters related to the appointment of the company's auditors.

The chairman convenes the Committee at regular intervals and reports to the Board on the Committee's meeting.

In 2006 the Audit Committee was chaired by Antti Lagerroos and its other members were Heikki Allonen, Risto Hautamäki and Matti Vuoria. All the members of the Audit Committee are independent of the company and three are independent of significant shareholders. The Audit Committee met four times in 2006.

The Nomination Committee

The Board of Directors appoints a Nomination Committee to assist it in its work. The Board appoints at least three of its members to sit on the Committee.

The Nomination Committee prepares, as necessary, the nomination of the President and CEO, the Executive Vice President and the CEO's deputy. The Committee communicates, as necessary, with major shareholders in matters concerning the appointment of the Board of Directors.

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

In 2006 the Nomination Committee was chaired by Antti Lagerroos and its other members were Göran J. Ehrnrooth and Matti Vuoria. All the members of the Nomination Committee are

independent of the company and of significant shareholders. The Nomination Committee met three times in 2006.

The Compensation Committee

The Board appoints a Nomination and Compensation Committee to assist it in its work. The Board appoints at least three of its members to sit on the Committee.

The Committee prepares proposals to be put before the Board of Directors concerning the incentive schemes and compensation that apply to the President and CEO and the company's other senior executives. The chairman of the Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and, when necessary, reports on the Committee's meetings to the Board.

In 2006 the Nomination and Compensation Committee was chaired by Antti Lagerroos and its other members were Heikki Allonen and Jaakko Iloniemi. All the members of the Nomination Committee are independent of the company and two are independent of significant shareholders.

The Compensation Committee met once during 2006.

The President and CEO and the Executive Vice President

The Board of Directors appoints a President for the Group who is also its chief executive officer. The President and CEO is in charge of the day-to-day management of the company and its administration in accordance with the company's Articles of Association, the Finnish Companies Act and the instructions of the Board of Directors. He is assisted in this work by the Board of Management. The President and CEO of the company is Mr Ole Johansson.

The Board of Directors appoints, if necessary, one or several executive vice presidents. The company's executive vice president is its chief financial officer Raimo Lind. Mr Lind is also the deputy to President and CEO Ole Johansson.

The Board of Management

The company's Board of Management comprises the President and CEO, the heads of the Ship Power, Power Plants, Services businesses and the Engine Division, the Chief Financial Officer, the Group Vice President, Engine Division, and the Group Vice President, Legal Affairs & Human Resources. Board of Management members are appointed by the company's Board

of Directors, which also approves their remuneration and other terms of employment.

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

The heads of the businesses on the Board of Management are each responsible for the sales volumes and profitability of their respective global businesses, employing the services of the Group's worldwide subsidiaries. Information on the members of the Board of Management, their areas of responsibility and holdings are given on page 25.

The year 2006

In 2006 the Board of Management met 14 times. The principal issues addressed by the Board of Management were related to market development, company growth and profitability, business operations possibilities and strategy as well as issues relating to development of competitiveness. The further development of production volumes and key supplier relationships in an environment of growing demand, as well as increasing production flexibility were also vital concerns addressed by the Board of Management. Other important matters considered by the Board of Management included the quantitative and qualitative development of the company's personnel and management resources world-wide and developing internal global processes and working practices.

The Corporate Management

The company's Corporate Management includes, in addition to the members of the Board of Management, the directors in charge of corporate functions.

Information on the members of Corporate Management and their areas of responsibility is given on page 26.

Business Boards

Each business head is supported by a Business Board to consider issues including the business's strategy and business operations. Information on the members of the Business Boards is given on page 26.

Managing Directors of the subsidiaries

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

Remuneration

Fees paid to the Board of Directors

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

The year 2006

In 2006 the members of the Board of Directors were paid the following fees:

- the chairman 60,000 euros
- the deputy chairman 45,000 euros
- each member 30,000 euros

The Board members were also paid fees for attending meetings as follows: the chairman 800 euros per meeting and the other members 400 euros per meeting. 40% of the annual fees are paid in the form of Wärtsilä shares. The fee for attendance at meetings is paid in cash.

The seven members of Wärtsilä's Board of Directors, none of whom are employees of the company, were paid altogether 301,000 euros in cash for the financial period ended 31 December 2006. The Board's members are not covered by the company's stock option scheme or bonus scheme.

Fees paid in Wärtsilä B shares in 2006

Board of Directors	No. of shares
Chairman	
Antti Lagerroos	773
Deputy Chairman	
Göran J. Ehrnrooth	580
Heikki Allonen	386
Risto Hautamäki	386
Jaakko Iloniemi	386
Bertel Langenskiöld	386
Matti Vuoria	386

Board of Directors share ownership in Wärtsilä 31 December 2006

Board of Directors	Series A	Series B
Antti Lagerroos	-	13,550
Change in 2006		+773
Göran J. Ehrnrooth	4,222	9,100
Change in 2006		+580
Heikki Allonen	-	1,899
Change in 2006		+386
Risto Hautamäki	-	5,000
Change in 2006		+600
Jaakko Iloniemi	-	4,295
Change in 2006		+386
Bertel Langenskiöld	-	4,121
Change in 2006		+386
Matti Vuoria	-	953
Change in 2006		+386

Board of Management share and option ownership in Wärtsilä 31 December 2006

Board of Management	Series A	Series B	Option 2001	Option 2002
Ole Johansson	2,550	21,700	-	50,000
Change in 2006			-84,000	
Raimo Lind	795	1,545	-	8,000
Change in 2006			-20,000	-7,000
Tage Blomberg	2,025	-	-	-
Change in 2006				-10,000
Jaakko Eskola*	-	200	-	-
Change in 2006				
Lars Hellberg	-	-	-	-
Change in 2006			-12,000	
Kari Hietanen	-	72	-	7,000
Change in 2006			-12,000	-8,000
Christoph Vitzthum*	150	300	-	-
Change in 2006				

* Joined the Board of Management during 2006.

Salaries and bonuses paid to the President and CEO and the Board of Management

The remuneration paid to the President and CEO and other members of the Board of Management, and the principles underlying it, are determined by the Board of Directors. The remuneration paid to the President and CEO and the other members of the Board of Management consists of a monthly salary and a bonus. The Board of Directors determines the terms for the bonus payment. The bonus payments for the President and CEO and the Board of Management are paid according to the achievement of the company's profit targets.

Information on the President and CEO's remuneration in 2006, including benefits in kind and bonuses, is presented in the Financial Review on page 62. The President and CEO is eligible to take retirement on reaching the age of sixty and his retirement pension is 60% of his statutory earnings. Compensation paid to the President and CEO if he is dismissed by the company corresponds to 12 month's salary in addition to a six-month period of notice salary. The retirement age of the members of the Board of Management is sixty.

Management incentive schemes

Decisions on incentive schemes applied to the President and CEO and members of the Board of Management are made by the Board of Directors, which also decides on any long-term incentive schemes for senior management unless the law requires decisions on such schemes to be made by a General Meeting of shareholders. Decisions on bonus schemes for other directors and managers are made by the Board of Management.

The company has two stock option schemes for senior managers. The 2001 options covered 78 key personnel and the 2002 options 39 key personnel. More information on these schemes is provided on pages 30 and 52 of the Financial Review.

The Group also operates a bonus scheme which is implemented globally in all businesses. The bonus is based on the Group's profitability and agreed personal targets. Approximately 1,300 directors and managers are covered by this bonus scheme.

The Board of Directors has decided on a long-term bonus scheme for senior management tied to the stock development of the company's B share. The bonus scheme applies to approximately 40 directors.

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

Control systems

Responsibility for the management of the company and its proper organization lies with the Board of Directors. In practice it is the President and CEO's task to ensure the proper organization of the company's internal supervision, risk management, internal audit and accounting supervision mechanisms, assisted by the Board of Management. The instructions and guidelines apply to the entire Group or to individual businesses.

The company's financial progress is reviewed monthly through a Group-wide reporting system. This includes an income statement, balance sheet information, key indicators, and events of importance to the company's operations.

Risk management

The purpose of risk management is to ensure that the company's business objectives are reached and that the company remains a going concern. The risk management function analyses the risks faced by the company's various businesses and units. It also defines the risk management principles applied throughout the Group and it develops risk management methods and insurance schemes. Areas of responsibility have been defined in the organization to cover different risks.

The internal audit

The Group's internal audit is handled by the company's Internal Audit unit, which reports to the President and CEO. The purpose of the Internal Audit is to analyse the company's operations and processes, and the effectiveness and quality of its supervision mechanisms. The internal auditor also participates, if necessary, in audits undertaken in conjunction with acquisitions and he carries out special tasks assigned by the Management. The internal audit function covers all the company's organizational levels and subsidiaries. An internal audit is undertaken in the main subsidiaries at 1–3 year intervals.

The internal auditor prepares an annual plan under which he independently audits different parts of the company but he is also empowered to carry out special audits. The annual plan is approved by the Audit Committee, to which the Internal Audit also reports at regular intervals. If required, the auditors also have the possibility to take direct contact with the Audit Committee or members of the Board of Directors.

Insider management

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

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

Certain members of the Corporate Management and other employees, as required by their duties, also belong to the

company's own non-public insider register. When significant projects are at the preparation stage the company also draws up insider registers for the projects concerned. Insiders are given written notification of their status as insiders as well as instructions on the obligations that apply to insiders.

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

The company's insider register is maintained by the parent company's legal affairs department, which is responsible for keeping the information updated. Information on the interests and holdings of the company's permanent insiders and related parties is available from the SIRE system of the Finnish Central Securities Depository Ltd, Urho Kekkosenkatu 5 C, FI-00100 Helsinki, Finland, tel. +358 800 180 500. The same information is also posted on Wärtsilä's website.

The external audit

The company has at least one and at most three public accountants authorized by the Central Chamber of Commerce, at least one being an auditing firm. The auditors are elected by the Annual General Meeting to audit the accounts for the on-going financial year and their duties cease at the close of the subsequent Annual General Meeting. The auditors are responsible for auditing the consolidated and parent company's financial statements and accounting records and the administration of the parent company.

On closing of the annual accounts, the external auditors submit the statutory auditor's report to the company's shareholders and they also regularly report their findings to the Board of Directors' Audit Committee. An auditor, in addition to fulfilling general competency requirements, must also comply with certain legal impartiality requirements guaranteeing the execution of an independent and reliable audit.

In 2006 the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditors.

Auditing fees paid to all the auditors of the Group's companies during 2006 amounted to EUR 1.8 million. Consultancy fees

unrelated to auditing duties paid to the auditors totalled EUR 1.2 million. These latter fees concerned acquisitions and consultation on taxation matters.

Communications

The principal information on Wärtsilä's administration and management is published on the company's website. All stock exchange releases and press releases as well as significant presentation materials used by senior executives are likewise published on the company's website as soon as these are made public.

Board of Directors



Mr Antti Lagerroos

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

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

Other positions of trust: Ilmarinen Mutual Pension Insurance Company, Member of the Supervisory Board; Confederation of Finnish Industries EK, Member of the Board; Finnish Shipowners' Association, Member of the Board since 1990 & Chairman of the Board 1991–95 and 2000–01; Schiffshypothekenbank zu Lübeck AG (Deutsche Bank), Member of Advisory Board (Germany).

Mr Göran J. Ehrnrooth

Independent of the company and significant shareholders. Deputy Chairman of the Board of Wärtsilä Corporation. Born 1934, MSc (Econ.). Member of the Board of Wärtsilä Corporation since 1992.

Primary working experience: President of Fiskars Corporation 1969–83; Chairman of the Board of Fiskars Corporation 1984–2006.

Mr Heikki Allonen

Independent of the company, dependent on a significant shareholder. Member of the Board of Wärtsilä Corporation since 2004. Born 1954, MSc (Eng.). President & CEO of Fiskars Corporation.

Primary working experience: Lohja Corporation, Rudus, Project Engineer 1979–80; Saudi Building Material Co., President 1980–82; Lohja Corporation, Concrete Industries, several management positions 1982–89; Lohja Corporation, Vice President, Corporate Development 1989–90; Wärtsilä Corporation, Senior Vice President for project to merge Lohja and Wärtsilä 1990–92; Metra Corporation, Senior Vice President, Corporate Planning 1992–2000; SRV Group Plc, President 2001–03.

Other positions of trust: Rautaruukki Corporation, Member of the Supervisory Board.

Mr Risto Hautamäki

Independent of the company and significant shareholders. Member of the Board of Wärtsilä Corporation since 2003. Born 1945, MSc (Eng.). President of Metso Paper Inc.

Primary working experience: Valmet Corporation, managerial, sales and project engineering positions 1970–88; Valmet Paper Machinery Inc., Executive Vice President and Chief Operating Officer 1989–90; Valmet Paper Machinery Inc., President & CEO 1990–94; Tamfelt Corporation, President & CEO 1995–2005.

Mr Jaakko Itoniemi

Independent of the company and significant shareholders. Member of the Board of Wärtsilä Corporation since 1994. Born 1932, MSc (Pol. Sc.).

Primary working experience: Finland's Ambassador to the USA 1977–83; Union Bank of Finland, Board Member 1983–90; Finnish Business and Policy-Forum EVA, Managing Director 1990–2000.

Mr Bertel Langenskiöld

Independent of the company and significant shareholders. Member of the Board of Wärtsilä Corporation since 2002. Born 1950, MSc (Eng.). President of Metso Paper, Inc. as of 4/2007.

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

Other positions of trust: Member of the Board of Luvata International Oy.

Mr Matti Vuoria

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

Primary working experience: Secretary General, Ministry of Trade and Industry 1992–98; Full-time Chairman of the Board of Directors, Fortum Corporation 1998–2003.

Other positions of trust: Sampo plc, Deputy Chairman of the Board; Danisco A/S and Stora Enso Oyj, Member of the Boards; Winwind Oy, Chairman of the Board; The Federation of Financial Services, Member of the Board and the Finnish Pension Alliance TELLA, Chairman of the Board.

Board of Management



From the left: Lars Hellberg, Tage Blomberg, Kari Hietanen, Ole Johansson, Christoph Vitzthum, Raimo Lind and Jaakko Eskola.

Mr Ole Johansson

President & CEO since 2000. Born 1951, BSc (Econ.).

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

Positions of trust: Board Chairman, Technology Industries of Finland; Board Vice Chairman, Outokumpu Oyj; Board Vice Chairman, Varma Mutual Pension Insurance Company; Board Vice Chairman, Confederation of Finnish Industries EK.

Mr Raimo Lind

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

Primary working experience: Wärtsilä Group, positions within control and finance and in development and internationalization 1976–80; Wärtsilä Diesel Group, Vice President & Controller 1980–84; Wärtsilä Singapore, Managing Director & Area Director 1984–88; Wärtsilä Service Division, Deputy Vice President 1988–89; Scantailer Ajoneuvoteollisuus Oy, President 1990–1992; Tamrock Oy, CFO 1992–93; Tamrock Service Business, Vice President 1994–96; Tamrock Coal Business, Vice President 1996–97.

Positions of trust: Member of the Board, Sato Oyj.

Mr Tage Blomberg

Group Vice President, Services since 1999. Born 1949, BSc (Eng.). Joined the company in 1975.

Primary working experience: Wärtsilä Oy, Research Engineer 1975–82; Wärtsilä Power Inc., Sales Manager 1982–84; Wärtsilä Diesel, Project Manager 1984–89; Wärtsilä Diesel Oy, Vice President 1989–96; Wärtsilä NSD Corporation, Marine, Senior Vice President 1996–99.

Mr Jaakko Eskola

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

Primary working experience: VTT, Technical Research Centre of Finland, Researcher 1983–84; Industrialisation Fund of Finland, Corporate Analyst 1984–85; Kansallis Banking Group, various managerial positions in international project finance 1985–97; PCA Corporate Finance, Executive Director 1997–98; Wärtsilä Development & Financial Services Oy, President 1998–2005; Wärtsilä Corporation, Power Plants, Vice President, Sales & Marketing 2005–06.

Positions of trust: Finpro ry, Member of the Supervisory Board.

Mr Lars Hellberg

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

Primary working experience: Volvo Cars AB, Research Engine Engineer and Project Director in vehicle development

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

Mr Kari Hietanen

Group Vice President, Legal Affairs and HR. Company Secretary. Born 1963, LL.M. Joined the company in 1989.

Primary working experience: Metra Corporation and Wärtsilä Diesel Group, Legal Counsel 1989–94; Wärtsilä Diesel Group, General Counsel 1994–99; Wärtsilä Power Divisions, Group General Counsel 2000–2001; Wärtsilä Corporation, Vice President and Group General Counsel 2002.

Mr Christoph Vitzthum

Group Vice President, Power Plants since 2006. Born 1969, MSc (Econ.). Joined the company in 1995.

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

Corporate Management

Corporate Management comprises the Board of Management along with the following directors responsible for various corporate functions:

Mr Yngve Bårgård

Vice President, Corporate Supply Management.
Born 1958, BSc (Eng.).

Ms Päivi Castrén

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

Ms Maj-Len Ek

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

Mr Roger Holm

Chief Information Officer (CIO). Born 1972, MSc (Econ.).

Mr Per Hansson

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

Mr Heikki Horstia

Vice President, Group Treasury. Born 1950, BSc (Econ.).

Ms Eeva Kainulainen

Vice President, Corporate Communications & IR.
Born 1948, MSc (Soc.Sc.).

Mr Mikael Simelius,

Vice President, Marketing Communications and Branding.
Born 1964. MSc (Econ.).

Mr Anders Söderholm

Vice President, Corporate Internal Audit.
Born 1943, BSc (Econ.), Authorized Public Accountant.

Business Boards

Ship Power

Mr Jaakko Eskola

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

Mr Lars Anderson

Vice President, 2-stroke engines. Born 1968, BSc (Mech. Eng.).

Mr Fred van Beers

Vice President, Seals & Bearings. Born 1962, Bachelor's degree, Merchant Engineer & Bachelor degree BtB Marketing.

Mr Carl-Henrik Björk

Vice President, Marketing & Sales. Born 1947, Marine Engineer.

Mr Timo Koponen

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

Mr Magnus Miemois

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

Mr Jari Salo

Vice President, Propulsors. Born 1963, MSc (Eng.).

Mr Henrik Wilhelms

Vice President, 4-stroke engines. Born 1965, BSc (Mech. Eng.).

Services

Mr Tage Blomberg

Group Vice President, Service. Born 1949, BSc (Eng.).

Mr Pekka Ahlqvist

Vice President, Automation. Born 1946, MSc (Eng.). MBA.

Mr Pierpaolo Barbone

Vice President, Field Service. Born 1957, MSc (Min. Eng.).

Mr Stefan Fant

Vice President, Operations & Maintenance. Born 1955, BSc (Mech.).

Mr Christer Kantola

Vice President, Service Sales. Born 1952, BSc (Mech.).

Mr Donal Lynch

Vice President, Parts. Born 1956, Business Management Diploma (Operations/General).

Mr Stefan Nysjö

Vice President, Customer Assistance. Born 1970, BSc (Mech.).

Ms Eva-Stina Rönnholm

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

Mr Rolf Vestergren

Vice President, Technical Service. Born 1948, BSc (Eng.).

Power Plants

Mr Christoph Vitzthum

Group Vice President, Power Plants. Born 1969, MSc (Econ.).

Mr Banmali Agrawala

Vice President, Biomass Power Plants. Born 1963, BE (Mech. Eng.).

Mr Nauman Ahmad

Vice President, Development & Financial Services. Born 1970, BSc (Computer Science), BA (Econ.).

Mr Tore Björkman

Vice President, Sales Management. Born 1957, BSc (Mech. Eng.).

Mr Osmo Härkönen

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

Mr Caj Malmsten

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

Mr Rakesh Sarin

Vice President, Sales & Marketing. Born 1955, BSc (Chemical Eng.).

Mr Vesa Riihimäki

Vice President, Power Plant Technology. Born 1966, MSc (Eng.).

Engine Division

Mr Lars Hellberg

Group Vice President, Engine Division. Born 1959, BSc (Eng.).

Mr Stefan Damlin

Vice President, Finance Control. Born 1968, MSc (Econ.).

Mr Frans Don

Vice President, Business Office. Born 1952, BSc (Eng.).

Mr Klaus Heim

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

Mr Juha Kytölä

Vice President, Delivery Centre Vaasa, President of Wärtsilä Finland Oy. Born 1964, MSc (Eng.).

Mr Erik Pettersson

Vice President, Delivery Development Centre. Born 1953, BSc (Eng.).

Mr Sergio Razeto

Vice President, Delivery Centre Trieste. President of Wärtsilä Italia S.p.A. Born 1950, MSc (Eng.).

Mr Martin Wernli

Vice President, Delivery Centre Low Speed. President of Wärtsilä Switzerland Ltd. Born 1960, JD Attorney at Law.

Contents

Financial review 2006

28	Five Years in Figures
30	Calculation of Financial Ratios
31	Review by the Board of Directors 2006
40	Consolidated Financial Statements
40	Income Statement
41	Balance Sheet
42	Cash Flow Statement
43	Statement of Changes in Shareholders' Equity
44	Accounting Principles for the Consolidated Accounts
48	Notes to the Consolidated Financial Statements
65	Parent Company Financial Statements
65	Income Statement
65	Balance Sheet
67	Cash Flow Statement
68	Accounting Principles for the Parent Company
69	Notes to the Parent Company Financial Statements
73	Proposal of the Board
74	Auditors' Report
75	Quarterly Figures 2005–2006
76	Shares and Shareholders
81	Wärtsilä on the Capital Markets 2006

The consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). Wärtsilä's date of transition was 1 January 2005. Prior to IFRS, Wärtsilä's financial reporting was based on Finnish accounting standards (FAS). In the graphs and tables, the data for 2004 to 2006 are presented according to IFRS and for prior years according to FAS.

Five Years in Figures

Five Years in Figures	IFRS	IFRS	IFRS	FAS	FAS	FAS
MEUR	2006	2005	2004	2004	2003	2002
Net sales	3,189.6	2,638.8	2,478.2	2,478.2	2,357.5	2,519.0
of which outside Finland	98.5	97.7	96.2	96.2	97.1	96.6
Exports from Finland	1,726.3	1,404.7	1,292.0	1,292.0	1,240.6	1,363.7
Personnel on average	13,264	12,049	12,361	12,361	12,293	12,417
of which in Finland	2,641	2,572	3,246	3,246	3,463	3,510
Order book, Power Businesses	4,438.9	2,905.7	1,855.3	1,855.3	1,245.0	1,206.6
From the income statement						
Depreciation and write-downs	71.6	71.6	63.0	85.5	156.0	105.4
Operating result	261.6	224.3	112.0	239.8	-18.4	188.9
as a percentage of net sales	8.2	8.5	4.5	9.7	-0.8	7.5
Net financial items	-7.1	-23.4	-3.7	-3.3	-15.9	-18.5
as a percentage of net sales	-0.2	-0.9	-0.2	-0.1	-0.7	-0.7
Net income from investments available for sale	123.9	0.5	107.7			
Share of profit of associates	68.3	10.9	1.4	1.4	0.0	0.4
Profit before taxes	446.8	212.4	217.3	236.5	-34.4	170.4
as a percentage of net sales	14.0	8.0	8.8	9.5	-1.5	6.8
Profit for the financial year	352.9	167.0	130.0	160.3	-39.3	121.9
as a percentage of net sales	11.1	6.3	5.2	6.5	-1.7	4.8
From the balance sheet						
Non-current assets	1,232.8	1,315.8	964.0	878.3	961.9	1,085.4
Current assets	1,954.8	1,552.8	1,433.3	1,448.4	1,421.0	1,599.6
Shareholders' equity attributable to equity holders of the parent	1,216.9	1,153.1	892.7	853.0	804.6	953.0
Minority interest	12.9	9.8	7.8	7.8	6.1	6.5
Interest-bearing liabilities	270.4	403.6	320.0	319.5	496.8	624.3
Non-interest-bearing liabilities	1,687.3	1,302.0	1,176.8	1,146.4	1,075.4	1,101.2
Balance sheet total	3,187.6	2,868.6	2,397.3	2,326.7	2,382.9	2,685.0
Gross capital expenditure	193.2	231.1	69.2	64.8	65.4	423.3
as a percentage of net sales	6.1	8.8	2.8	2.6	2.8	16.8
Research and development expenses ³	84.8	70.1	73.4	59.4	70.2	87.6
as a percentage of net sales	2.7	2.7	3.0	2.4	3.0	3.5
Dividends paid for the financial year ¹	167.2	84.7	41.6	41.6	44.7	14.9
Supplementary dividend		198.5	41.6	41.6	61.7	89.2
Dividends total	167.2	283.2	83.3	83.3	106.4	104.1

		IFRS	IFRS	IFRS	FAS	FAS	FAS
MEUR		2006	2005	2004	2004	2003	2002
Financial ratios							
Earnings per share (EPS)	EUR	3.72	1.80	1.42	1.75	-0.44	1.37
Diluted EPS	EUR	3.71	1.78	1.42			
Dividend per share ¹	EUR	1.75	3.00	0.90	0.90	1.17	1.17
Dividend per earnings ¹	%	47.0	166.7	64.1	51.4	n/a	85.4
Interest coverage ²		13.1	8.3	17.2	20.1	4.4	7.8
Return on investment (ROI)	%	31.8	18.0	18.0	20.4	0.1	14.9
Return on equity (ROE)	%	29.5	16.3	15.0	19.7	-4.5	12.4
Solvency ratio 1 ²	%	47.0	46.6	40.8	40.3	35.0	36.9
Solvency ratio 2 ²	%	47.0	46.6	40.8	40.3	36.2	38.0
Gearing 1 ²		0.07	0.24	0.17	0.18	0.48	0.50
Gearing 2 ²		0.07	0.24	0.17	0.18	0.43	0.46
Equity per share	EUR	12.74	12.25	9.65	9.22	8.69	10.37

¹Proposal of the Board of Directors. Financial ratios calculated from total amount of dividend.

²Please refer to the Calculation of Financial Ratios on page 30.

³Accounting principles for R&D expenses changed in 2004.

Calculation of Financial Ratios

Return on investment (ROI)

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

Return on equity (ROE)

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

Interest coverage

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

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)

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

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 2006

Highlights of 2006

Strong growth in the world economy continued to boost the shipping and shipbuilding industry in 2006 and a record number of vessels were ordered during the year. High oil prices further intensified the exploration and development of oil and natural gas reserves, which also boosted demand in both the offshore and LNG carrier segments, areas of particular strength for Wärtsilä. The high price of energy also had a positive impact on demand for Wärtsilä power plants, which are competitive because of their efficiency and use of fuels which are low-cost compared to the competing technologies. Due to the high market activity Wärtsilä received a record number of new orders in 2006 as well, and the order book again stood at an all-time high at the year end.

Comparable net sales grew over 26% to EUR 3,189.6 million (2,520.3) and profitability developed according to plan. Operating income, EUR 261.6 million (202.5), grew over 29%. Cash flow was strongly positive and the company's financial position was very good.

Wärtsilä continued to pursue its strategy within Ship Power and Services development by broadening the product portfolio, strengthening its position in Asia, and making further acquisitions. Organic growth within Power Plants continued successfully.

Net sales

MEUR	2006	2005	Change %
Ship Power	984.7	710.3	38.6
Power Plants	934.2	710.3	31.5
Services	1,266.5	1,093.1	15.9
Imatra Steel		119,0 ¹	
Other operations and intra-group sales	4.3	6.2	
Group	3,189.6	2,638.8	20.9

¹ Four months.

Strategy and objectives

Wärtsilä's strategic goal is to strengthen its leading position in its field. This is done by providing customers with the best lifetime efficiency and reliability in the market through an integrated offering that meets their business needs throughout the world. Wärtsilä will also grow by adding to the offering new products and services that will help customers operate their power systems more efficiently and safely. Wärtsilä will increase its capabilities in automation, as well as strengthen its offering of solutions for environmentally safe and reliable power system operation through a combination of organic growth, partnerships and acquisitions.

Strategic measures in 2006

Wärtsilä took several steps during 2006 to support its strategic goals:

Wärtsilä continued strengthening its position as a total solutions provider in the marine market

In February Wärtsilä acquired Aker Kvaerner Power and Automation Systems AS (AKPAS) from Aker Kvaerner. The company supplies power and automation systems for the oil and gas, marine and industrial markets. The acquisition supports Wärtsilä's growth strategy and it enhances Wärtsilä's product portfolio and system integration capabilities in electric propulsion, power

distribution and automation, especially in the oil and gas and offshore sectors.

An alliance between Wärtsilä Automation Norway and the US company Emerson Process Management increases Wärtsilä's capabilities in process automation for FPSO vessels.

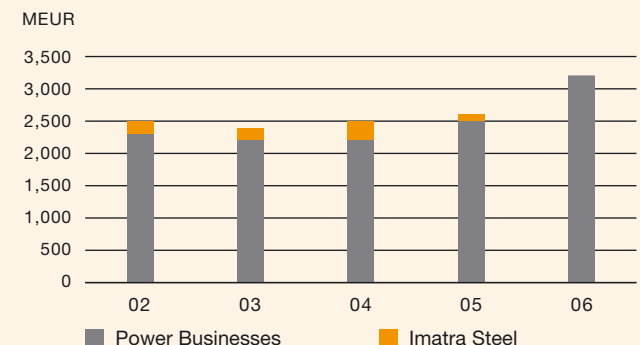
In February Wärtsilä announced that it will acquire the entire business and all subsidiaries of Singaporean Total Automation Ltd, a Singapore-based public marine automation company. The transaction was closed in June 2006. In addition to general marine automation, Total Automation has a strong foothold within the offshore and LNG sectors. The company focuses on refit projects and service work. The transaction complements Wärtsilä's earlier automation acquisitions.

In March, Wärtsilä and the BLRT Grupp of Estonia agreed on a joint venture to service ships in the Baltic area. The joint venture is owned 51% by Wärtsilä and 49% by the BLRT Grupp and is located in Lithuania.

In July Wärtsilä acquired the German service company INTEC Injectortechnik GmbH. The acquisition enhances Wärtsilä's capabilities in fuel injection technology and services.

The acquisition of the business of the Swedish company Stockholms Fartygsreparationer AB in October further strengthens Wärtsilä's position as a service provider along the Swedish east coast.

Development of net sales



In December Wärtsilä acquired the German ship design company group SCHIFFKO. The acquisition supports Wärtsilä's strategic focus to grow as a system integrator and provider of total solutions to the shipping and shipbuilding market.

Production close to the main markets in Asia

The new factory for Wärtsilä Auxpac marine generating sets in China was inaugurated at the end of June by Wärtsilä Qiyao Diesel Company Ltd (Shanghai), the joint venture between Wärtsilä Corporation and the Shanghai Marine Diesel Engine Research Institute. The joint venture is a step in Wärtsilä's strategy to be close to customers in Asia and increase its global market share in auxiliary engines.

At the end of September Wärtsilä, China Shipbuilding Industry Corporation (CSIC) and Mitsubishi Heavy Industries (MHI) announced the establishment of a joint venture to manufacture large, low-speed marine engines in China. The joint venture is another step in Wärtsilä's strategy to better penetrate the Asian shipbuilding market and to strengthen its market position in low-speed engines.

In China the joint-venture Wärtsilä-CME, which started its operations in 2004, is investing in additional capacity to meet increased demand for fixed pitch propellers.

Focusing on core business

The agreement signed in July by Wärtsilä, SKF and Rautaruukki to sell the operating companies owned by Oy Ovako Ab was closed during the fourth quarter of 2006. Ovako was sold to a company owned by the shareholders of Hombergh Holdings BV, WP de Pundert Ventures BV and Pampus Industrie Beteiligungen GmbH & Co. KG. The divestment concludes Wärtsilä's plan to focus on its core businesses.

Financial targets

The Group's average annual growth target for net sales is 6–7%. The annual growth target for the Ship Power and Power Plants businesses is 4% and for the Services business 10–15%. Wärtsilä's operating income (EBIT) target is 8% of net sales over the cycle. The solvency target is 35–40%.

The year 2006

Operating environment and markets

Ship Power

The year 2006 turned out to be the best of all during the current shipbuilding boom and probably the best in the history of modern shipbuilding. Orders for 2,677 vessels were registered in 2006, which exceeds the earlier record in 2005 by 10%. Also in terms of deadweight tons the year exceeded the previous record from 2003 by 22%.

All energy-related segments have been the main drivers behind the highly active shipbuilding market. In very large tankers, VLCCs and Suezmax class vessels, for example, the order volumes were more than three times higher than in the previous year. In chemical and gas tankers and bulk carriers the level remained the same. Demand for containerships slowed down,

indicating the challenges faced by liners with increased costs and stagnating freight rates. In the big cruise vessel segment the number of vessels remained more or less the same, while in passenger vessels and ferries ordering volumes halved.

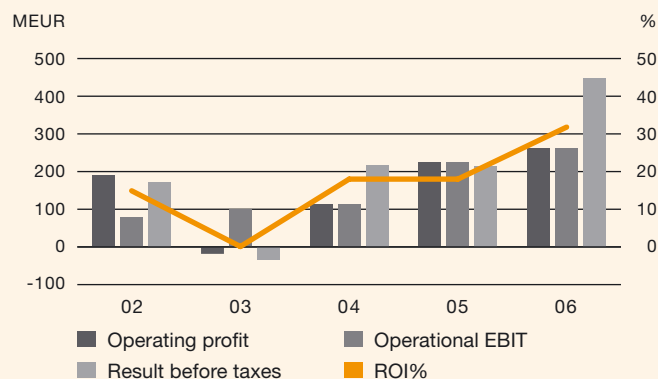
China continued to grow in the shipbuilding market. In terms of deadweight tons Korea maintained its dominating country position with a share of 38% although China approached closer than ever with 35%. In numbers of vessels China was clearly the biggest with 34% followed by Korea 25% and Europe 17%. Korea is strongest in the tanker and container sectors and almost entirely serves export customers, whereas Japanese yards predominantly serve domestic customers, the main sectors being dry cargo and gas vessels. China is active in all segments, except for the most sophisticated vessel types, and its customer base is mainly abroad. There has been relatively little competition between the countries for the same customers due to the strong

Operating income

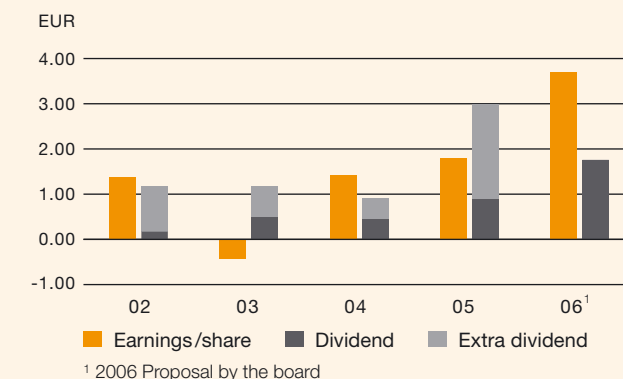
MEUR	2006	2005	2006	EBIT% 2005	2006	ROI% 2005
Power Businesses	261.6	202.5	8.2	8.0		
Imatra Steel		21.8 ¹		18.3		
Group	261.6	224.3	8.2	8.5	31.8	18.0

¹ Four months.

Result



Earnings/share, dividend/share



demand for new ships and new-build prices have remained strong.

Power Plants

All power plant segments relevant to Wärtsilä – baseload production, industrial self-generation and grid stability – were active in 2006. Demand was evenly spread globally, which reduced the risks associated with single markets and geographical concentration.

The high prices of oil, gas and metals had a positive impact on demand for power plants in certain markets. Countries in Africa and the Middle East, as well as other oil-producing countries are investing heavily in new infrastructure. Demand has also been high for gas power plants, notably in Japan. Liquid-biofuelled power plants are continuously offering new opportunities for Wärtsilä in both Europe and the developing world.

Order book again at all-time high

A record number of new orders were received during the year. The order intake totalled EUR 4,621.1 million (3,491.1) representing growth of 32.4%. Most new orders were registered in the Ship Power business, where the order intake was EUR 2,270.5

million (1,545.3), 46.9% higher than one year earlier. The full-year order intake for the Power Plants business grew by 18.7% and was EUR 1,027.3 million (865.2).

Wärtsilä's total order book at the end of 2006 once again reached an all-time high, EUR 4,438.9 million (2,905.7), up 52.8% on the previous year. Approximately 50% of the order book is due for delivery in 2007.

Strong growth in net sales

Wärtsilä's comparable consolidated net sales rose to EUR 3,189.6 million (2,520.3), an increase of 26.6% compared to 2005. Ship Power's net sales accounted for roughly 30% of total net sales, Services sales represented 40% and Power Plants' share of total net sales was around 30%.

Result improved, profitability developed according to plan

The comparable operating income improved to EUR 261.6 million (202.5). The profitability (EBIT) was 8.2% (8.0).

Financial items amounted to EUR -7.1 million (-23.4). Net interest totalled EUR -12.8 million (-11.9). Other financial expenses were EUR -2.7 million (-18.7). Other financial expenses

decreased primarily due to changes in the market value of derivatives and currency differences. Financial items include dividends totalling EUR 8.5 million (7.2), the largest of which were dividends paid by Assa Abloy AB (publ) and Sampo Oyj.

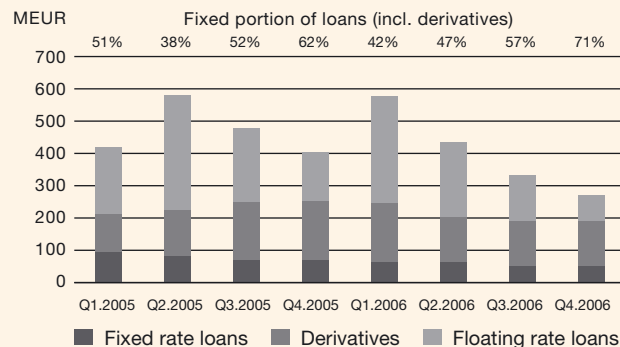
Income before taxes was EUR 446.8 million (212.4). The result includes a capital gain of EUR 123.9 million from the sale of 10 million Assa Abloy B shares and a capital gain of EUR 49.3 million from the sale of Ovako. The result also includes Wärtsilä's share of Ovako's profit after taxes EUR 18.1 million. The figure in the comparison period includes Imatra Steel's pretax profit of EUR 21.4 million and Wärtsilä's share of Ovako's profit after taxes EUR 10.4 million.

Taxes amounted to EUR -93.9 million (-44.0), of which EUR -32.2 million related to the sale of Assa Abloy shares. Taxes include deferred tax assets totalling EUR +25.5 million related to previously recognized restructuring expenses.

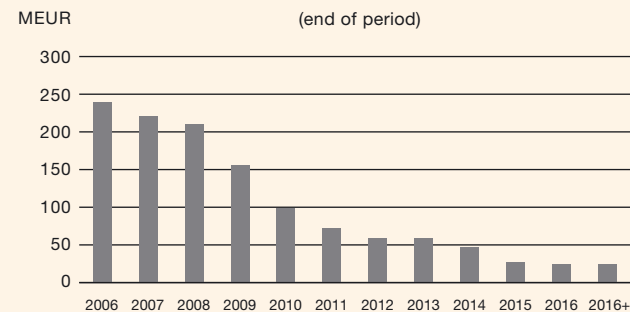
Net income was EUR 352.9 million (168.4).

Earnings per share improved to EUR 3.72 (1.80) out of which EUR 1.49 refers to capital gains. Return on investment (ROI) was 31.8% (18.0) and return on shareholders' equity (ROE) was 29.5% (16.3).

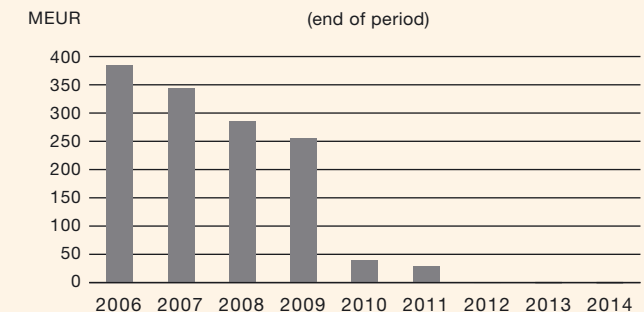
Wärtsilä Group's loans



Wärtsilä long-term credits



Wärtsilä revolving credits



Financial position strong

Wärtsilä's cash flow from operating activities was EUR 302.4 million (76.0). The financial position was strong. In addition to good cash flow from operating activities advanced payments increased during the review period. Due to the increase in business volumes both receivables and inventories have increased.

Cash and cash equivalents at the end of the year amounted to EUR 179.4 million (119.6). Net interest-bearing loan capital was EUR 54.7 million (255.9). The solvency ratio was 47.0% (46.6) and gearing was 0.07 (0.24).

Capital expenditure

Gross capital expenditure for the reporting period totalled EUR 193.2 million (231.1), which comprised EUR 86.4 million (152.2) in investments in acquisitions and EUR 106.8 million (79.0) in production and information technology investments. Depreciation amounted to EUR -71.6 million (-71.6).

The largest single investment was the acquisition of the businesses of Total Automation Ltd. The acquisition price was EUR 59.4 million.

During 2006 investments in Trieste and Vaasa amounted to EUR 12.5 million and Wärtsilä had commitments related to the investment programmes amounting to EUR 14.3 million.

Gross capital expenditure

MEUR	2006	2005
Investments in securities		
Power Businesses	86.4	152.2
Other investments		
Power Businesses	106.8	75.6
Imatra Steel		3.4
Total	106.8	79.0
Group	193.2	231.1

Holdings

Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% (4.7) of the total. This holding was booked in the balance sheet at its market value at the end of the reporting period, EUR 119.8 million.

During the financial period Oy Ovako Ab sold its operating companies, of which Wärtsilä's share was 26.5%. The total price of the business was approximately EUR 660 million, comprising a cash payment at closing of approximately EUR 535 million, a deferred cash payment of EUR 15 million to be paid in July 2008 and an interest-bearing vendor note of EUR 110 million to be paid within 3–6 years from closing. As a result of the transaction and the subsequent liquidation of Oy Ovako Ab, Wärtsilä has recorded a tax-free capital gain of EUR 49.3 million.

Personnel

Wärtsilä Group had 13,264 (12,049) employees on average during the year and 14,346 (12,008) at the year end. The personnel increased both through recruitments and by acquisitions in total by over 2,300 people. The largest personnel increases took place in the Services business. The largest increases were in Europe and Asia. The number of employees in Finland increased by 332 persons during the year.

Interest-bearing loan capital

MEUR	2006	2005
Long-term liabilities	204.6	229.4
Current liabilities	65.8	174.2
Loan receivables	-36.3	-28.1
Cash and bank balances	-179.4	-119.6
Net	54.7	255.9

The largest personnel increases through acquisitions related to Total Automation Ltd with a personnel increase of 571 people, AKPAS in Norway with 135 people, and Diesel Technology Solutions BV (DTS) in the Netherlands with 75 people.

The auxiliary engine factory jointly owned by Wärtsilä and Shanghai Marine Diesel Engine Research Institute employed 52 people at the year end. The service company Wärtsilä BLRT Services Klaipeda established in Lithuania by the joint venture between Wärtsilä and BLRT Grupp employed 71 people at the end of the year.

Sustainable development

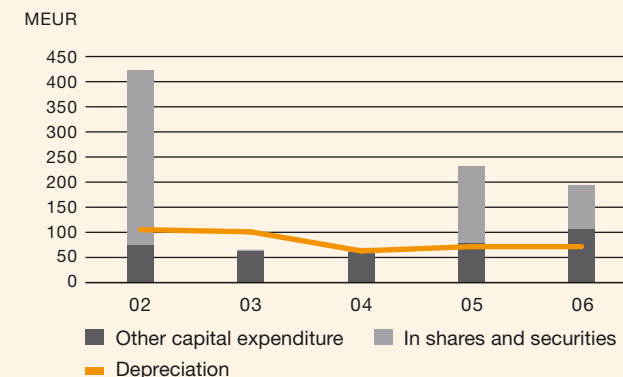
Wärtsilä has prepared the Sustainability Report to meet the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental and social performance. The Sustainability Report is assured.

Changes in management

Jaakko Eskola (48) MSc (Eng.) was appointed Group Vice President, Ship Power and a member of the Board of Management with effect from 1 April 2006.

Mikael Mäkinen, Executive Vice President and head of the Ship Power Business, left Wärtsilä to join another company on 1 April 2006.

Gross capital expenditure



Christoph Vitzthum (37) MSc (Econ.) was appointed Group Vice President, Power Plants and a member of the Board of Management with effect from 1 April 2006.

The former head of the Power Plants business, Pekka Ahlqvist MSc (Eng.) MBA, reached 60 years of age in spring 2006 and was then entitled to retire under the terms of his employment contract. He will continue to be employed by the company with responsibility for strategic management of Wärtsilä's automation activities.

Matti Kleimola, Prof. CTO, Group Vice President, Technology and Environment, retired on 1 May 2006 having reached the retirement age stipulated in his employment contract. Professor Kleimola will continue to act as an advisor to the Board of Management in matters related to Wärtsilä's field of technology.

Option schemes

Wärtsilä's option schemes covering key employees of the Group were launched in 2001 and 2002. The 2001 option rights have been listed on the Helsinki Exchange since 2005 and the 2002 option rights since 2004.

The decisions of Wärtsilä's annual general meeting and the extraordinary general meetings to pay an extra dividend of EUR 0.60 per share and EUR 1.50 per share reduced the subscription price of the B share under Wärtsilä's 2001 and 2002 stock option schemes by the amount of extra dividends, as stipulated in the terms and conditions of these schemes. Hence the subscription price of shares based on the 2001 options is EUR 14.60 euros per share and based on the 2002 options EUR 7.40 per share.

Annual General Meeting

The annual general meeting on 15 March 2006 approved the Board of Directors' proposal to distribute a dividend of EUR 0.90 and an extra dividend of EUR 0.60 per share, i.e. a total of EUR 1.50 per share.

The AGM confirmed the number of Board members to be seven. The following were elected to the Board: Heikki Allonen, Göran J. Ehrnrooth, Risto Hautamäki, Jaakko Iloniemi, Antti Lagerroos, Bertel Langenskiöld and Matti Vuoria.

The AGM appointed the firm of authorized public accountants KPMG Oy Ab as the company's auditors.

The Meeting authorized the Board for one year to repurchase and dispose of the company's own Series A and B shares in proportion to the total number of shares in each series provided that the total nominal value of the shares so purchased, and the votes carried by these shares, shall not exceed ten per cent (10%) of the company's total share capital and voting rights. This authorization was not exercised during the financial period.

Board of Directors

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

Audit Committee

Chairman, Antti Lagerroos;
Members, Heikki Allonen, Risto Hautamäki and Matti Vuoria.

Nomination Committee

Chairman, Antti Lagerroos;
Members Göran J. Ehrnrooth and Matti Vuoria.

Compensation Committee

Chairman, Antti Lagerroos;
Members Heikki Allonen and Jaakko Iloniemi.

Extraordinary general meeting

The extraordinary general meeting on 24 November 2006 approved the Board of Directors' proposal to pay an extra dividend of 1.50 euros on each Series A and B share for the financial period ended 31 December 2005.

Share capital and shares

A total of 1,447,236 Wärtsilä B shares were subscribed during the period under the 2001 and 2002 option schemes. This increased the share capital by EUR 5,065,326.00 following which the share capital amounts to EUR 334,440,232.00.

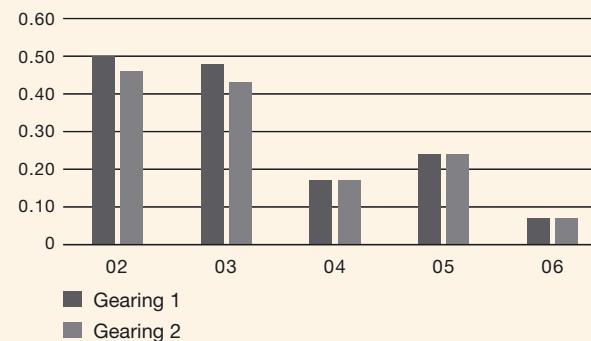
Business review

Wärtsilä Ship Power

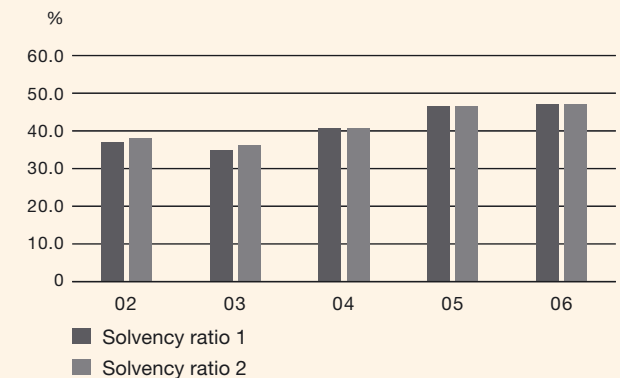
New record in received orders

In 2006 Wärtsilä set a new record in orders received for Ship Power equipment and systems. The total order intake for 2006 was EUR 2,270.5 (1,545,3) million, which is 46.9% more than in the previous year. The order intake during the year was dominated by offshore vessels and LNG tankers, together standing for approximately half of the total order intake. The cruise and passenger segments, other tankers and various service vessels were also active.

Gearing



Solvency ratio



The final order book at the end of the year was at an all-time high, EUR 3,019.7 (1,658,5) million, growth of 82.1%.

Net sales of the Ship Power business rose to EUR 984.7 million (710,3), corresponding to growth of 38.6% on the previous year. Growth accelerated towards the end of the year and the fourth quarter represented over 40% of the year's net sales. In terms of engine output Wärtsilä delivered medium-speed engines totalling 2,397 MW (1,760) to the marine market. Deliveries of licensee-built Wärtsilä low-speed engines amounted to 3,120 MW (3,577) in 2006.

A successful year for Ship Power in several areas

Wärtsilä gained further success with its dual-fuel concept in LNG carriers in 2006 and the concept became a major solution for powering these vessels. At the year end Wärtsilä had a total of 188 W50 dual-fuel engines on order for seven shipyards and for 47 LNG vessels. In the offshore segment Wärtsilä received an order from MPF Corporation Ltd for a Multi Purpose Floater mobile drilling unit whereby Wärtsilä will deliver an integrated onboard power plant along with power distribution, automation and propulsion systems. The order is a good example of the enhanced capabilities Ship Power has gained by acquiring

the automation and power system company AKPAS in Norway in March 2006. The acquisition on the one hand enlarged Wärtsilä's product portfolio and on the other increased the company's system integration capabilities in electric propulsion, power distribution and automation, especially in the oil and gas and offshore sectors.

Cruise and passenger vessels remained one of Wärtsilä's key segments also during 2006. Wärtsilä recorded several sizeable orders from shipyards in Finland, Italy, France and Germany. Wärtsilä was awarded a contract to deliver the main engines and transverse tunnel thrusters for the world's biggest cruise vessel, to be built at Aker Yards in Finland for Royal Caribbean Cruise Ltd.

In its propeller business Wärtsilä booked a historic order for altogether 50 fixed pitch propellers for two Chinese customers. The propellers are to be manufactured in Zhenjiang, China.

Market share

The total market for medium-speed main engines in 2006 was 9,200 MW (9,600). Wärtsilä Ship Power increased its market share in this sector to 51% (50% at the end of the previous quarter). The other main players in this area recorded shares of 23% and 13%. The high market share is a reflection of the market

segments active during the year and for which Wärtsilä's product portfolio is well suited. In low-speed engines the total market was 26,600 MW (21,900) at the end of the previous quarter, out of which Wärtsilä's share was 16% (17). Wärtsilä's low-speed engines are manufactured by licensees primarily in Asia close to the customers. The establishment of a joint venture company for manufacturing low-speed engines in China and the recent acquisition of the ship company Schiffko are strategic measures Wärtsilä has taken to improve its market share in the low-speed business. The total market for auxiliary engines was 7,600 MW (6,700) and Wärtsilä's share fell slightly from 7% to 6% due to capacity constraints.

In propulsor equipment Wärtsilä maintained its strong foothold. Controllable pitch propellers remained the strongest segment for Wärtsilä with a market share of 36% (35). In fixed pitch propellers Wärtsilä has traditionally been stronger in big units and, owing to the constraints in capacity, the company's market share has decreased to 11% (18). At the moment Wärtsilä is further increasing its fixed pitch propeller capacity in China to meet demand. In steerable thrusters likewise, demand has been very high. In this segment Wärtsilä's share has remained unchanged 11% (11).

Shares and shareholders

31 Dec. 2006	A share	B share	Total
Number of shares	23,579,587	71,974,765	95,554,352
Number of votes	235,795,870	71,974,765	307,770,635
Shares traded 1 January–31 December 2006	1,716,400	92,322,506	94,038,906
Foreign shareholders		31 Dec. 2006	31 Dec. 2005
		29.3%	24.1%

Wärtsilä share on the Helsinki Stock Exchanges

EUR	Highest	Lowest	Average ¹	Total traded
1 Jan.–31 Dec. 2006				
A share	40.99	24.60	32.52	40.75
B share	41.20	24.80	32.07	40.81

¹ Trade weighted average price.

Market capitalization

MEUR	31 Dec. 2006	31 Dec. 2005
	3,898.2	2,348.9

Wärtsilä Services

Strong growth continued

Net sales of the Services business rose to EUR 1,266.5 million (1,093.1), up 15.9% on the previous year, of which 9.3% was organic growth.

The acquisition of Total Automation Ltd was part of the company's strategy to strengthen its position as a Total Service supplier. It also complements earlier automation acquisitions. Total Automation has a strong foothold in the offshore and LNG sectors. The ship repair company set up in Lithuania jointly with the Estonian BLRT Grupp serves the Baltic market. The acquisition in July of INTEC Injectortechnic GmbH, provides installation and service of injection components for marine diesel engines. The acquisition of the Swedish company Stockholm Fartygsreparationer AB positions Wärtsilä to further expand its Services operations on the eastern coast of Sweden.

With its recent acquisitions, the company has turned its "one-stop-shop" vision into a reality: through Wärtsilä, customers now have a unique opportunity to get the largest scope of services from a single source all over the world. To help customers select services more easily, Wärtsilä Services has re-structured its offering into seven categories: Engine services, Automation Services,

Propeller Services, Operation & Management Services, Reconditioning Services, Training Service and Ship Services.

Wärtsilä's training unit, the Wärtsilä Land & Sea Academy, opened a new training centre in Turku, Finland, and a new maritime training centre in Khopoli, India. The Academy also has training centres in Italy, the Netherlands, Sweden, the USA, and the Philippines. These centres provide training courses and personnel development services for Wärtsilä's marine and power plant customers.

Wärtsilä Power Plants

High demand boosted net sales

The total power plant order intake for 2006 amounted to EUR 1,027.3 (865.2) million, representing growth of 18.7% on the corresponding period in 2005. Markets remained active in all major segments and in all fuel types. The share of gas-fired power plants rose to 52% of the total order intake. Gas-fired power plants were sold as flexible baseload installations, for grid stability and as solutions for industrial self-generation purposes. The largest single orders came from Azerbaijan, the United States, Tanzania, Nigeria and Turkey. Many of these orders are repeat orders, testament to the good experience Wärtsilä's

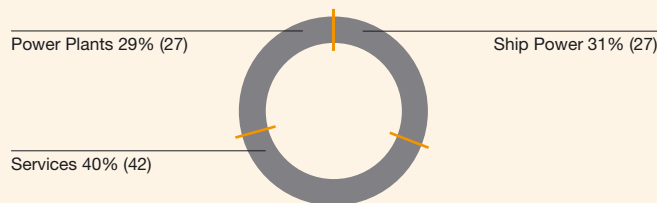
customers have had with previous Wärtsilä installations. Wärtsilä also sold more than 150 MW of gas-fired plants to Japanese customers in 2006, which makes the company the market leader in large gas engines in Japan.

Oil-fired power plants continue to offer possibilities in the areas of industrial self-generation and flexible baseload power generation. The largest orders in 2006 came from Brazil, Saudi Arabia, Italy, Cyprus and Uganda. Wärtsilä has a strong foothold in the biofuel market and received orders totalling more than 160 MW for liquid-biofuel-fired power plants to be delivered to Italy, which further demonstrates the versatility and fuel flexibility of the Wärtsilä Power Plant product.

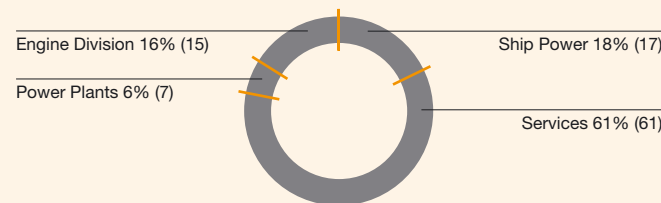
As a result of the good order intake during 2006 the order book for the Power Plants business is EUR 1,061.4 (943.9) million, which is 12.4% higher than at the end of the reporting period one year earlier.

Net sales for Power Plants developed favourably during 2006 and totalled EUR 934.2 (710.3) million, representing growth of 31.5%. Geographically, sales were distributed evenly with the largest growth coming from successful deliveries of power plants in Brazil and Azerbaijan. 1,944 MW was delivered during 2006, which comprised 746 MW for gas and 1,198 MW for oil.

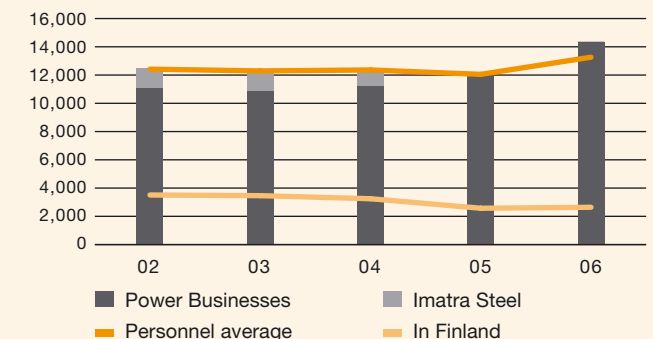
Net sales by business area



Personnel by businesses



Personnel



Market size and market shares

In 2006 the total global market for oil and gas power plants in Wärtsilä's power range was roughly 14,750 MW (10,300). In these markets Wärtsilä focuses on heavy fuel oil, gas and liquid biofuel power plants.

According to statistics compiled by Diesel and Gas Turbine magazine, Wärtsilä's market share of heavy fuel oil plants between June 2005 and May 2006 was 34% (44%). During the review period a large number of smaller heavy fuel oil power plants were ordered. These power plants are not within Wärtsilä's power range. In the light fuel oil segment relevant to Wärtsilä, Wärtsilä's market share increased to 23% (9) thanks to high demand for Wärtsilä's power plants fuelled by liquid biofuels. The market for gas power plants, including both reciprocating engines and gas turbines, increased from roughly 7,574 MW to 10,371 MW during the same period. Wärtsilä's share in this segment was 8.1% (7.8).

Manufacturing

Engines

In 2006 Wärtsilä announced investment programmes to increase production capacity for four-stroke engines in Vaasa, Finland and Trieste, Italy to meet the growing market demand. The investment projects are proceeding according to plan; capacity increases will start during the second quarter of 2007

and full capacity will be reached in the fourth quarter of 2007. The planned production model raises efficiency and ensures flexibility in terms of both multi-engine delivery and volumes, throughout the supply chain.

Wärtsilä Qiyao Diesel Co Ltd (Shanghai), the joint venture company between Wärtsilä Corporation and the Shanghai Marine Diesel Engine Research Institute (SMDERI) for manufacturing Wärtsilä Auxpac marine generating sets in China, was started in mid-2006. The new assembly factory manufactures Wärtsilä Auxpac 20 and from the end of 2007 also Auxpac 26 diesel generating sets for the growing shipbuilding market in China. It also exports these products to other countries through Wärtsilä's global sales network.

Wärtsilä, China Shipbuilding Industry Corporation (CSIC) and Mitsubishi Heavy Industries (MHI) have decided to establish a joint venture factory to produce low-speed engines in China in order to meet the increasing demand in Asia and the growing shipbuilding market in China. The QMD factory will produce large marine engines for Chinese shipyards. It will develop, manufacture and sell a new generation of energy-saving and environmentally-sound low-speed two-stroke marine engines under licence from Wärtsilä and MHI. The factory will be built in the Qingdao area, where CSIC is setting up a marine industry cluster. Production is expected to start in 2008.

The acquisition of Diesel Technology Solutions BV (DTS) in 2006 has increased Wärtsilä's component machining capacity.

Wärtsilä has continued to develop capacity for critical components to be able to meet growing demand in the years ahead. Investments have been implemented by many of the company's suppliers and the main part of the investment will be operational during 2007. Wärtsilä is increasingly looking at broadening its supplier network in Asia and India.

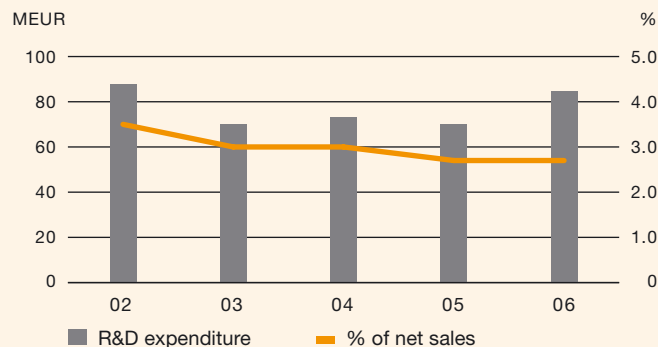
In output terms a total of 4,256 (3,445) MW of four-stroke engines manufactured by Wärtsilä's own factories was delivered to customers during the year.

Other equipment

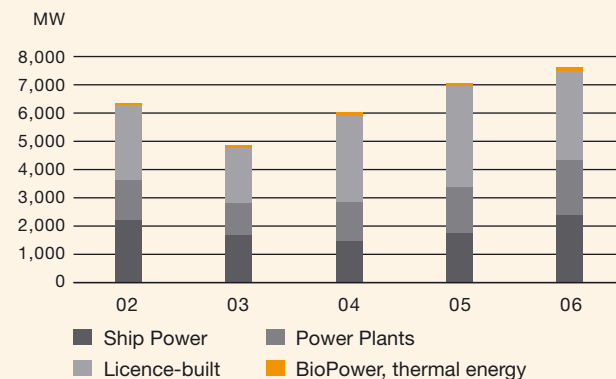
In propulsion equipment Wärtsilä launched investment programmes to enlarge the Chinese transverse thruster factory to cover also the steerable thruster product range. At the same time the company is increasing capacity for larger thrusters in the Drunen factory in the Netherlands. Furthermore, Wärtsilä is adding capacity for fixed pitch propellers in its joint-venture factory in Zhenjiang, China.

To meet the increased demand in seals and bearings Wärtsilä is building a new factory for seals, line shaft bearings and stern tubes in Wuxi, China. The factory will further strengthen Wärtsilä's position in seal and bearing products on the Chinese market.

R&D expenditure



Megawatts delivered



Megawatts delivered

	2006	2005	Change %
Power Plant engines	1,944	1,607	21.0
Ship Power, own engines	2,397	1,760	36.2
Wärtsilä total	4,341	3,367	28.9
By licensees	3,120	3,577	-12.8
BioPower, thermal energy	167	117	42.7
Engine delivery total	7,628	7,061	8.0

The capacity enlargements of the investment projects will enter operation by mid-2007.

Research and development

Wärtsilä's research and development focuses on developing and applying technology with the aim of reducing environmental impacts, improving efficiency and reducing the fuel consumption of the engines. In its propulsion business Wärtsilä is continuously focusing on technologies for increasing propulsion efficiency and on environmentally friendly sealing solutions for the containment of oil.

In 2006 Wärtsilä and MAN Diesel agreed to propose a large-scale Cooperative Research Project – HERCULES β – in continuation of an ongoing joint research project funded by the European Union. The target in HERCULES β is to improve the fuel efficiency of marine diesel propulsion systems to more than 60%. An additional concurrent aim is towards ultra-low exhaust emissions from marine engines by 2015. The HERCULES β Project is planned to run over a four-year period and is expected to be fully agreed in 2007. It will be subsequently proposed for funding within the Framework Program 7 (FP7, Theme Transport) of the European Commission.

In the field of fuel cell development the European Union has chosen a research consortium coordinated by Wärtsilä to develop the use of methanol-consuming fuel cells to provide electrical power to marine vessels. The main purpose of the METHAPU project is to develop and validate renewable-fuel-based technology on board a cargo vessel involved in international trade.

In 2006 the 14RT-flex96C engine, the most powerful diesel engine ever built, was delivered to the customer. The engine has an output of 108,920 bhp.

In 2006 Wärtsilä's research and development expenses totalled EUR 84.8 (71.0) million, or 2.7% of net sales.

Events after the end of the period

Wärtsilä and Hyundai Heavy Industries Co. Ltd (HHI) signed an agreement on 23 January 2007 to set up a 50/50-owned joint venture in Korea to manufacture dual-fuel engines for LNG (liquefied natural gas) carriers. The total investment in the company will be EUR 58 million, Wärtsilä's share being EUR 29 million. The

name of the company will be Wärtsilä Hyundai Engine Company Ltd.

Board's proposal to the AGM 2007

The Board of Directors proposes to the Annual General Meeting on 14 March 2007 that a dividend of 1.75 euros per share be paid for the financial year 2006.

Risks and business uncertainties

The very high level of demand has led to short supply of some key components. Examples of bottlenecks are castings and forgings where global demand exceeds supply. Wärtsilä has worked hard to overcome the situation and several measures have been taken to ensure the availability of these key components. Investments have been implemented by many of the company's suppliers and the main part of the investments will be operational during 2007. More information about Wärtsilä's operational risks can be found in the annual report and about the financial risks in the notes to the financial statements.

Market outlook 2007

The shipping and shipbuilding industries continue to grow extremely strongly. The pace of new orders accelerated towards the end of the year. After the fourth consecutive boom year, shipyard order books now represent roughly 30% of the existing vessel fleet. The increase in deliveries will speed up the growth of the sailing fleet over the next few years at an annual rate of 6–7%. In the immediate years to come the world economy and sea trade are expected to grow at an annual rate of 5%. Freight rates have maintained their level and there have been no significant decreases in any of the segments. Thanks to strong earnings shipowners have been able to continue to invest in new ships.

High energy prices have accelerated investments in the energy-related industries. Offshore investments for both vessels and various production platforms are estimated to continue despite somewhat reduced oil prices. In the offshore vessel segment average earnings are clearly above the long-term trends.

In 2007 shipyards will increase their capacity and at the same time more new ships are entering the market. This is raising pres-

sure on both freight rates and new-build prices. At the macro-economic level the fundamentals have not changed and the above factors suggest a decrease in activity levels in the long term. However, at this stage no signs of deceleration exist and Wärtsilä foresees strong demand continuing for at least the first part of 2007.

The main drivers for continued growth in the power plant market remain world economic growth as well as the need to increase efficiency and versatility in power generation due to high fuel prices. Other drivers for the power plant market were environmental concerns and fuel availability issues. Power Plants sees growth potential in the grid stability services market in North America as well as other developed countries. Russia offers significant market potential in the oil and gas industry where recent signs point to considerable growth in demand for energy generation and the need to renew outdated power plant capacity. Japan continues to remain an active gas power plant market. Flexible baseload power as well as industrial self-generation are forecast to remain active market segments throughout the Middle East and Central and South America. A continued high order intake is expected in all segments during the first part of 2007.

Services continues to grow through new products, acquisitions and as a result of the high utilization of the engine base.

Wärtsilä stands well prepared for changes in the market having restructured its business, penetrated new market segments and achieved growth in its Services business.

Wärtsilä's prospects in 2007

Demand in the ship power and energy markets looks likely to remain active for Wärtsilä for at least the first half of 2007. Based on the strong order book, Wärtsilä's net sales are expected to grow this year by around 15%. Profitability will exceed 9%. Wärtsilä sees further possibilities for growth in 2008.

5 February 2007

Wärtsilä Corporation
Board of Directors

Consolidated Financial Statements

Consolidated Income Statement

MEUR	Note	2006	%	2005	%
Net sales	1,3	3,189.6	100.0	2,638.8	100.0
Change in inventories of finished goods & work in progress		88.4		28.2	
Work performed by the Group and capitalized		2.3		1.2	
Other income	4	24.8		26.8	
Material and services	5	-1,955.2		-1,522.5	
Employee benefit expenses	6	-629.5		-540.0	
Depreciation	7	-71.6		-71.6	
Other expenses		-387.3		-336.6	
Operating result		261.6	8.2	224.3	8.5
Income from financial assets		8.5		7.2	
Interest income	8	4.0		2.9	
Other financial income	8	23.2		5.5	
Interest expenses	8	-16.8		-14.7	
Other financial expenses	8	-26.0		-24.3	
Net income from investments available for sale	16	123.9		0.5	
Share of profit of associates	13,14	68.3		10.9	
Profit before taxes		446.8		212.4	
Taxes for the period	9	-93.9		-44.0	
Profit for the financial period		352.9	11.1	168.4	6.4
Attributable to:					
Equity holders of the parent company	10	351.2		167.0	
Minority interest		1.7		1.4	
		352.9		168.4	
Earnings per share attributable to equity holders of the parent company:					
Earnings per share, EUR		3.72		1.80	
Diluted earnings per share, EUR		3.71		1.78	

Consolidated Balance Sheet, Assets

MEUR	Note	31 Dec. 2006	%	31 Dec. 2005	%
Non-current assets					
Intangible assets	11	185.1		175.4	
Goodwill	11	417.3		365.7	
Property, plant and equipment	12	300.1		255.7	
Investment properties	12	14.9		17.2	
Equity in associates	13	3.1		108.5	
Investments available for sale	16	182.8		284.4	
Interest-bearing investments	18	35.2		27.2	
Deferred tax receivables	20	86.7		77.6	
Other receivables	18	7.6		4.2	
		1,232.8	38.7	1,315.8	45.9
Current assets					
Equity in associates ¹	13,14	5.6			
Inventories	17	837.6		638.6	
Interest-bearing receivables	18	1.0		0.9	
Trade receivables	18	772.2		670.2	
Income tax receivables		7.5		16.1	
Other receivables	18	151.5		107.4	
Cash and cash equivalents	19	179.4		119.6	
		1,954.8	61.3	1,552.8	54.1
Assets		3,187.6	100.0	2,868.6	100.0

¹ Shares in Oy Ovako Ab**Consolidated Balance Sheet, Shareholders' equity and liabilities**

MEUR	Note	31 Dec. 2006	%	31 Dec. 2005	%
Shareholders' equity					
Share capital	22	334.4		329.4	
Share premium reserve	22	58.0		44.0	
Translation differences		2.9		7.0	
Fair value reserve	24	128.2		146.9	
Retained earnings		693.3		625.8	
Total equity attributable to equity holders of the parent		1,216.9	38.2	1,153.1	40.2
Minority interest		12.9	0.4	9.8	0.3
Total shareholders' equity		1,229.8	38.6	1,163.0	40.5
Non-current liabilities					
Interest-bearing debt	26	204.6		229.4	
Deferred tax liabilities	20	74.0		78.8	
Pension obligations	21	52.5		50.5	
Provisions	25	19.5		17.0	
Other liabilities	27	1.1		1.5	
		351.8	11.0	377.2	13.1
Current liabilities					
Interest-bearing debt	26	65.8		174.2	
Provisions	25	117.0		104.1	
Advances received		572.0		371.4	
Trade payables		270.5		238.1	
Income tax liabilities		77.9		29.9	
Other current liabilities	27	502.7		410.7	
		1,606.0	50.4	1,328.5	46.3
Total liabilities		1,957.8	61.4	1,705.7	59.5
Shareholders' equity and liabilities		3,187.6	100.0	2,868.6	100.0

Consolidated Cash Flow Statement

MEUR	2006	2005
Cash flows from operating activities:		
Profit before taxes	446.8	212.4
Adjustments:		
Depreciation	71.6	71.6
Share of profit of associates	-68.3	-10.9
Selling profit and loss of fixed assets	-131.0	-11.8
Financial income and expenses	6.4	23.4
Other changes	1.9	-1.5
Cash flow before changes in working capital	327.3	283.1
Changes in working capital:		
Current assets, non-interest-bearing, increase (-)/decrease (+)	-124.6	-107.9
Inventories, increase (-)/decrease (+)	-188.8	-117.1
Current liabilities, non-interest-bearing, increase (-)/decrease (+)	365.0	105.2
Changes in working capital	51.6	-119.8
Cash flow from operating activities before financial items and taxes	378.9	163.3
Financial items and taxes:		
Interest and other financial expenses	-24.2	-47.6
Interest and other financial income	3.7	10.9
Income taxes	-56.1	-50.5
Financial items and taxes	-76.6	-87.3
Cash flow from operating activities	302.4	76.0

MEUR	2006	2005
Cash flow from investing activities:		
Investments in subsidiary shares	-86.1	-126.0
Investments in shares	-0.3	-26.2
Investments in tangible and intangible assets	-99.0	-79.0
Proceeds from sale of shares	317.6	-8.6
Proceeds from sale of tangible and intangible assets	5.1	51.2
Loan receivables, increase (+)/decrease (-) and other changes	2.2	3.0
Dividends received from investments	8.5	7.2
Cash flow from investing activities	148.0	-178.3
Cash flow after investing activities	450.4	-102.3
Cash flow from financing activities:		
Issuance of share capital	19.0	22.1
Loan receivables, increase (-)/decrease (+)	-6.9	-44.7
Current loans, increase (+)/decrease (-)	-84.5	183.7
New long-term loans	6.0	53.2
Amortization and other changes to long-term loans	-36.9	-83.0
Dividends paid	-283.5	-83.9
Other changes	-0.2	0.1
Cash flow from financing activities	-387.0	47.6
Change in liquid funds, increase (+)/decrease (-)	63.3	-54.7
Cash and cash equivalents at beginning of period	119.6	169.6
Fair value adjustments, investments	0.7	0.4
Exchange rate changes	-4.2	4.3
Cash and cash equivalents at end of period	179.4	119.6

Statement of Changes in Shareholders' Equity

MEUR	Total equity attributable to equity holders of the parent					Total	Minority Interest	Total equity
	Share capital	Share issue premium	Translation differences	Fair value and other reserves	Retained earnings			
Shareholders' equity on 1 January 2005	323.9	27.3	-1.0		542.5	892.7	7.8	900.5
IAS 39 applied on 1 January 2005				184.2		184.2		184.2
Translation differences			8.0			8.0	1.2	9.2
Other changes					-0.3	-0.3		-0.3
Available-for-sale investments								
gain/loss arising from fair valuation, net of taxes				15.7		15.7		15.7
transferred to income statement, net of taxes				-0.1		-0.1		-0.1
Cash flow hedges after taxes				-52.8		-52.8		-52.8
Net income recognized directly in equity			8.0	146.9	-0.3	154.6	1.2	155.8
Profit for the financial period					167.0	167.0	1.4	168.4
Total recognized income and expenses for the period			8.0	146.9	166.7	321.6	2.6	324.2
Options exercised	5.4	16.7				22.1		22.1
Dividends paid					-83.3	-83.3	-0.6	-83.9
Shareholders' equity on 31 December 2005	329.4	44.0	7.0	146.9	625.8	1,153.1	9.8	1,163.0
Translation differences			-4.1		-0.5	-4.6	-0.8	-5.4
Other changes							2.6	2.6
Available-for-sale investments								
gain/loss arising from fair valuation, net of taxes				24.9		24.9		24.9
transferred to income statement, net of taxes				-80.6		-80.6		-80.6
Cash flow hedges after taxes								
gain/loss arising from fair valuation, net of taxes				33.8		33.8		33.8
transferred to income statement, net of taxes				3.2		3.2		3.2
Net income recognized directly in equity			-4.1	-18.7	-0.5	-23.3	1.8	-21.5
Profit for the financial period					351.2	351.2	1.7	352.9
Total recognized income and expenses for the period			-4.1	-18.7	350.7	327.9	3.5	331.3
Options exercised	5.1	14.0				19.0		19.0
Dividends paid					-283.2	-283.2	-0.3	-283.5
Shareholders' equity on 31 December 2006	334.4	58.0	2.9	128.2	693.4	1,216.9	12.9	1,229.8

Additional information on share capital is presented in Note 22 and for fair value and other reserves in Note 24. Other changes in 2006 include minority investments in operating activities in China.

Accounting Principles for the Consolidated Accounts

Basic information

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

Wärtsilä enhances the business of its customers by providing them with complete lifecycle power solutions. When creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products and solutions as well as services. Through innovative products and services, Wärtsilä sets out to be the most valued business partner of all its customers. This is achieved by the dedication of more than 14,000 professionals manning over 130 Wärtsilä locations in close to 70 countries around the world.

Basis of preparation

The consolidated annual financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) applying the IAS and IFRS standards, and their SIC and IFRIC interpretations, in force at 31 December 2006. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedure stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with Finnish accounting principles and corporate legislation.

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

Since 1 January 2006 the Group has applied the following updated standards:

IAS 39 Financial Instruments: Recognition and Measurement: Amendments after March 31, 2004:

-Cash flow hedges of forecast intragroup transactions, issued 14 April 2005, effective from 1 January 2006.

-Fair value option, issued 16 June 2005, effective from 1 January 2006.

-Financial guarantee contracts, issued 18 August 2005, effective from 1 January 2006.

Application of these changes has no significant impact on the Group's financial statements.

Amendments to IAS 19: Amendment to Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, issued 16 December 2004, effective from 1 January 2006. The change provides an alternative method for treating actuarial gains and losses. Since the Group has not amended the way it recognizes actuarial gains and losses in its accounts, adoption of this change affects only the notes to the financial statements.

IFRIC 4 Interpretation: Determining Whether an Arrangement Contains a Lease, issued 2 December 2004, effective from 1 January 2006. Adoption of this interpretation added EUR 7.8 million to capital expenditure. It had no significant impact on the income statement.

Use of estimates

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

Sales revenue is normally recognized when the product or service has been delivered, its value has been determined and it is probable that the booked receivable will be collected. These estimates affect the amount of sales revenue recognized. Revenue from long-term projects and long-term operations and maintenance agreements is recognized according to their percentage of completion when the profit on the project or agreement can be reliably determined. The degree of completion and the profit are based on management's estimates as to the realization of the project or agreement. These estimates are reviewed regularly. Booked sales revenue and profit are adjusted during the project when assumptions concerning the outcome of the entire project are updated. Changes in assumptions relate primarily to changes in the project's or agreement's schedule, scope of supply, technology, costs and any other relevant factors.

Warranty provisions are recorded on the recognition of sales revenue. The provision is based on accumulated experience of the level of warranty needed to manage future and current cost claims. Products can contain new and complex technology which can affect warranty estimates with the result that such provisions are not always sufficient.

The Group is a defendant in several court cases arising from its business operations. A provision is recorded when an unfavourable result is probable and the loss can be determined with reasonable certainty. The final result can differ from these estimates.

The recoverable amounts of tangible and intangible assets and goodwill are determined for all cash-generating units annually or, if it is shown that the asset has lost value, its value in use is determined. The value in use is determined using estimates of future market development such as growth and profitability as well as other significant factors. The most important factors underlying such estimates are growth, operating margin, useful life, future investment needs, and the discount interest rate. Changes in these assumptions can significantly affect future estimates.

Estimates of pension obligations in the case of defined benefit plans are based on actuarial estimates of factors including future salary increases, discount interest rates and income from reserve funds. Changes in these assumptions can significantly affect the company's pension obligations and pension costs.

Principles of consolidation

The consolidated financial statements include the parent company Wärtsilä Corporation and all subsidiaries in which the parent company directly or indirectly holds more than 50 per cent of the voting rights or in which Wärtsilä is otherwise in control, as well as the Group's associated companies (20 to 50 per cent voting rights and significant influence over the company but not control over its financial and operating policies). Associated companies are included in the consolidated financial statements using the equity method. If the Group's share of the associated company's losses exceeds its interest in the associated company, the carrying amount is written down to zero.

After this losses are only reported if the Group has incurred obligations from the associated company.

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

Acquired companies are accounted for using the purchase method of accounting according to which the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The difference between the purchase price and the company's net identifiable assets, liabilities and contingent liabilities is reported as goodwill. In accordance with the exemptions under IFRS 1, acquisitions prior to the transition date of 1 January 2004 have not been restated but previous values are taken as deemed cost. The goodwill values reported in the 31 December 2003 consolidated financial statements prepared in accordance with FAS have been taken as deemed cost, except where the company's assessment of the recoverable amount resulted in a write-down. Prior to the transition date goodwill was amortized over its expected useful life, up to a maximum of 20 years. Goodwill is not amortized under IFRS but tested for impairment at least annually.

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

Measurement of fair value of assets acquired in business combinations

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

Joint ventures

Joint ventures are companies in which the Group shares control with another party. The Group's holdings in joint ventures are consolidated proportionately line by line. The consolidated

financial statements include the Group's share of its joint ventures' assets, liabilities, income and expenses.

Foreign subsidiaries

In the consolidated financial statements, the income statements and cash flows of foreign subsidiaries are translated into euros at the quarterly average exchange rates. Balance sheets are translated into euros at the exchange rates prevailing at the balance sheet date and translation differences are recognized in equity.

Translation differences arising before 1 January 2004, the date on which the Group adopted IFRS, were entered at the transfer date under retained earnings, as permitted by the exemption granted by IFRS 1 (First-Time Adoption), and have not been subsequently recorded in the income statement on the sale of the subsidiary. After the transfer date, translation differences arising in the preparation of the financial statements are shown as a separate item under shareholders' equity.

Transactions in foreign currencies

Transactions denominated in a foreign currency are translated into euros using the exchange rate prevailing at the dates of the transactions. Receivables and liabilities are translated into euros at the exchange rate prevailing at the balance sheet date. Exchange rate gains and losses related to non-financial receivables and liabilities are reported on the applicable line in the income statement and are included in operating income. Exchange rate differences related to financial receivables and financial liabilities are reported as financial items in the income statement.

Net sales and revenue recognition

Sales are presented net of indirect sales taxes and discounts. Sales are recognized when the significant risks and rewards connected with ownership have been transferred to the buyer. This usually means that revenue recognition occurs when a product or service is delivered to the customer in accordance with the terms of delivery.

Revenue from long-term contracts and long-term operating and maintenance agreements is recognized in accordance with the percentage of completion method when the outcome of the contract can be estimated reliably. The percentage of completion is based on the ratio of costs incurred to total estimated costs

to date for long-term construction contracts, whereas for long-term operating and maintenance agreements it is calculated on the basis of the proportion of the contracted services performed. When the final outcome of a long-term project cannot be reliably determined, the costs arising from the project are expensed in the same reporting period in which they occur, but revenue from the project is recorded only to the extent that the company will receive an amount corresponding to actual costs. Losses due to projects are expensed immediately.

Research and development costs

Research and development costs are expensed in the reporting period during which they occur except for development costs, which are capitalized when it is probable that the development project will generate future economic benefits for the Group, and when the criteria of IAS 38 (Intangible assets), including commercial and technological feasibility, have been met. These projects involve the development of new or significantly improved products or production processes. Capitalized development costs are amortized and the cost of buildings, machinery and facilities for development depreciated on a systematic basis over their expected useful lives. Grants received are reported as a reduction in costs for the period in question.

Pension benefits

Group companies in different countries have various pension plans in accordance with local conditions and practices. These pension plans are classified either as defined contribution or defined benefit plans.

The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation arising from defined benefit plans is determined using the projected unit credit method and the plan assets are measured at fair value at the measurement date. The Group's obligation with respect to a plan is calculated by identifying the extent to which the cumulative unrecognized actuarial gain or loss exceeds by more than 10 per cent the greater of the present value of the defined benefit obligation and the fair value of the plan assets. The excess is recognized in the income statement over the expected average remaining working lives of employees participating the plan. On the IFRS transfer date, 1 January 2004, all cumulative actuarial gains and losses were

recognized in shareholders' equity in the opening IFRS balance sheet, as permitted by the first-time adoption exemption in IFRS 1. Defined benefit plans are calculated by qualified actuaries.

Share-based payments

Under IFRS 2 the fair value of employee options is reported as an expense and an increase in shareholders' equity. This does not apply to any existing option plans of the Group, as these were granted before IFRS 2 came into force.

Goodwill and other intangible assets

The difference between the purchase price and the fair value of a company's net assets and contingent liabilities at the date of acquisition is reported as goodwill. Under IFRS goodwill is not amortized but tested for impairment at least annually, and more often if there are indications of impairment.

Other intangible assets include patents, licences, capitalized development costs, software and other intellectual property rights. These are valued at cost except for intangible assets identified in connection with acquisitions, which are valued at the fair value at the acquisition date. Intangible assets are amortized on a straight-line basis over their estimated useful lives. Intangible assets, for which the time limit for the right of use is agreed, are amortized over the life of the contract.

The general guidelines for scheduled amortization are:

Development costs	5–10 years
Software	3–7 years
Other intangible assets	5–20 years

Property, plant and equipment and depreciation

Fixed assets acquired by the Group are recorded in the balance sheet at cost less accumulated depreciation and impairment losses. The book values of certain land areas and buildings include revaluation of EUR 3.8 million recorded prior to the transition date of 1 January 2004 and included within the deemed cost of land and buildings in accordance with the exemption under IFRS 1. The fixed assets of acquired subsidiaries are valued at their fair value at the acquisition date. Depreciation is based on the following estimated useful lives:

Buildings	10–40 years
Machinery and equipment	5–20 years
Other tangible assets	3–10 years

Investment properties

Properties which are not used in the Group's operating activities, or which are held to earn rental income or for capital appreciation or both, are classified as investment properties. Investment properties are treated as long-term investments and are valued at cost less accumulated depreciation and impairments.

Leases

Lease agreements where all material rewards and risks of ownership have been transferred to the Group are classified as finance leases. Assets acquired under finance lease are recognized as fixed assets at the lower of the fair value of the leased asset or the estimated present value of the underlying lease payments. The corresponding rental obligation, net of finance charge, is included in interest-bearing liabilities with the interest element of the finance charge being recognized in the income statement over the lease period. Assets acquired under a finance lease are depreciated over their estimated useful lives in accordance with the same principles that apply to other similar fixed assets.

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

Inventory valuation

Inventories are carried at the lower of cost or net realizable value. Cost includes allocated purchasing and manufacturing overhead costs in addition to direct manufacturing costs. Inventory valuation is primarily based on the weighted average cost.

Financial assets and financial liabilities

Financial assets are classified into the following categories: financial assets designated at fair value through profit or loss, investments held to maturity, loans and other receivables, and financial assets available for sale. Financial assets are classified on the basis of their purpose upon initial recognition.

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and similar investments. Other liquid funds comprise short-term highly liquid investments which are subject to only minor fluctuations in value.

Trade receivables are recognized at their anticipated realizable value, which is the original invoiced amount less an estimated

valuation allowance for impairment on these receivables. Receivables are valued individually. Credit losses are expensed in the income statement.

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

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

Derivatives are initially reported at cost in the balance sheet and are thereafter valued at their fair value at each balance sheet date.

Certain derivatives are eligible for hedge accounting in accordance with IAS 39. Changes in the fair value of derivative contracts that have been signed to hedge future cash flows (cash flow hedge) are reported under shareholders' equity (difference in spot prices), provided that they meet the requirements for hedge accounting. Any accrued profit or loss in the hedge reserve under shareholders' equity is reported as an adjustment to selling proceeds or transaction costs in the same period as any transactions relating to the hedged obligations or estimates.

The Group documents the relationship between each hedging instrument and the hedged asset upon entering into a hedging arrangement, along with the risk management objective and the strategy applied. Through this process the hedging instrument is linked to the relevant assets and liabilities, projected business transactions or binding contracts. The Group also documents its ongoing assessment of the effectiveness of the hedge as regards the relationship between a change in the derivative's fair value and a change in the value of the hedged cash flows or transactions.

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

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

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

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

Gains and losses on disposal and impairments of shares that are attributable to operating activities are included in operating income, while gains and losses on disposal and impairments of other shares are included in financial income and expenses.

Impairments

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

Provisions

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable

estimate can be made of the amount of the obligation. Provisions can arise, for example, from warranties, environmental risks, litigation, forecast losses on projects, onerous contracts and restructuring costs.

Estimated future warranty costs relating to products supplied are recorded as provisions. The amount of future warranty costs is based on accumulated experience.

Provisions for restructuring costs are made once the personnel concerned have been informed of the terms or a restructuring plan has been established. The plan must indicate which activities and personnel will be affected and the timing and cost of implementation.

Income taxes

The income statement includes taxes on the Group's consolidated taxable income for the reporting period in accordance with local tax regulations, tax adjustments for previous reporting periods and changes in deferred taxes. Deferred tax liabilities and assets are calculated on all temporary differences arising from the difference between the tax basis of assets and liabilities and the carrying values using the enacted tax rates at the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax assets at their estimated probable amount.

Dividends

The dividend proposed by the Board of Directors is not deducted from distributable equity until approved by the company's annual general meeting.

Adoption of new and updated IFRS standards

The standards, their interpretations and amendments described below have been released but are not yet in force and the Group will not adopt them until the mandatory adoption date. In 2007 the Group will adopt the following new and updated standards and interpretations issued by the IASB in 2005 and 2006:

- IFRS 7 Financial Instruments: Disclosures (effective for periods beginning on or after 1 January 2007). IFRS requires more detailed information in the notes to the financial statements on the significance of financial instruments for an entity's financial position and performance. The standard requires the disclosure of qualitative and quantitative information on the entity's

sensitivity to the risks associated with its use of financial instruments. The minimum requirements are notes on credit, liquidity and market risk. The standard also includes the requirement to provide a sensitivity analysis on market risk. The Group considers that adoption of IFRS 7 will mainly affect the notes in the Group's future financial statements.

- Amendment to IAS 1: IAS 1 Presentation of Financial Statements – Capital Disclosures (effective for periods beginning on or after 1 January 2007). Following this amendment, IAS 1 will require information to be disclosed on the entity's capital and how it is managed during the accounting period. The Group considers that adoption of the new IAS 1 provisions will mainly affect the notes in the Group's future financial statements.

- IFRIC 8: Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006). IFRIC 8 applies to arrangements where an entity makes share-based payments and the identifiable consideration given appears to be less than the fair value of the equity instruments granted. In this situation the entity must assess whether or not such payments are covered by the scope of IFRS 2. The Group considers that this interpretation will have no impact on future financial statements.

- IFRIC 9 Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether a contract contains any embedded derivatives that should be separated from the host contract and accounted for as stand-alone derivatives when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. The Group currently considers that this interpretation will not affect its financial statements as no Group company has amended the terms of any contract in the manner described in the interpretation.

- IFRIC 10 Interim Financial Reporting and Impairment (effective for periods beginning on or after 1 November 2006). IFRIC 10 prohibits an entity from reversing an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The Group considers that this new interpretation will not affect its future financial statements.

Notes to the Consolidated Financial Statements

1. Segment information

Wärtsilä reports its business segment as its primary segment and its geographical areas as its secondary segment. The primary segment consists of the Power Businesses and Holdings. Holdings are reported as a separate segment because shareholding is not a part of the corporate's core business. The Power Businesses are subdivided into two mutually supportive market areas, Ship Power and Power Plants. These offer customers the same product concept modified for specific applications. The main products for both these markets are gas and diesel engines and related service. The market segments are highly dependent on each other.

In the Power Businesses the design-related research and development and manufacturing required for the engines sold to both markets take place in the same R&D centres and factories, and the manufacturing process is the same for each market. Similarly, the same Group companies are responsible for the distribution of these products and their service. Capacity costs cannot be reliably allocated to the two different markets. These costs are significant and vary between the two units in different years. Customers in both markets are capital-intensive corporations with global operations. Development of the two market areas is strongly linked to global economic trends.

In 2005 Wärtsilä's third business segment was Imatra Steel, which became part of the new steel company Oy Ovako Ab in May 2005.

The secondary segment consists of geographical areas Europe, America, Asia and other continents.

Non-allocated assets and liabilities consist of tax assets and liabilities.

Business segments 2006

MEUR	Power Businesses	Holdings	Non- allocated	Group
Net sales	3,189.6			3,189.6
Operating income	261.6			261.6
Financial income and expenses and dividends	-15.0	7.9		-7.1
Net income from assets available for sale		123.9		123.9
Share of profit of associates	0.9	67.4		68.3
Income before taxes				446.8
Assets	2,891.4	202.0	94.2	3,187.6
Liabilities	1,805.8		152.0	1,957.8
Investments	193.2			193.2
Depreciation	71.6			71.6

Business segments 2005

MEUR	Power Businesses	Imatra Steel	Holdings	Non- allocated	Group
Net sales	2,520.3	119.0			2,638.8
Operating income	202.5	21.8			224.3
Financial income and expenses and dividends			5.8	-29.2	-23.4
Net income from assets available for sale			0.5		0.5
Share of profit of associates			10.4	0.5	10.9
Income before taxes					212.4
Assets	2,389.7		385.3	93.7	2,868.6
Liabilities	1,597.0			108.7	1,705.7
Investments	204.5	3.4	23.2		231.1
Depreciation	67.2	4.4			71.6

Geographical segments 2006

MEUR	Europe	Asia	Americas	Other	Non- allocated	Group
Net sales	1,244.7	1,140.8	582.3	221.8		3,189.6
Assets	2,416.0	368.1	276.1	33.2	94.2	3,187.6
Investments	126.7	60.4	4.9	1.1		193.2

Geographical segments 2005

MEUR	Europe	Asia	Americas	Other	Non- allocated	Group
Net sales	1,108.8	951.0	395.4	183.6		2,638.8
Assets	2,227.4	261.3	264.2	22.1	93.7	2,868.6
Investments	186.3	19.6	24.8	0.5		231.1

In the geographical segments net sales is split by the customer's destination and assets and investments by origin.

2. Acquisitions and disposals

Acquisitions 2006

Overall impact on performance

MEUR	Booked in income statement 2006	On full-year pro forma performance
Net sales	79.5	3,222.1
Operating income	8.0	264.6

In full-year pro forma performance the estimated impact of acquisitions on the consolidated financial statements is presented as if all the acquisitions were made on 1 January 2006.

Total Automation Group

The business operations and subsidiaries of Total Automation Ltd were acquired at the end of June. Holding a strong position in the offshore and gas production sector, Total Automation specializes in marine repair and maintenance services. The goodwill recognized by Wärtsilä is based on the expertise of the company's personnel and its corporate image, the value of which cannot be determined separately, as well as on other synergic effects expected to materialize when the company's automation services are fully integrated with Wärtsilä's Services business.

Total Automation's sales between June and December amounted to EUR 28 million.

Acquisition price	MEUR
Consideration paid in cash	59.4
Acquisition costs	0.8
	60.3
Acquired assets to fair value	-22.9
Goodwill	37.4

Specification of acquired assets

	Book value	Fair value
Intangible assets	1.8	3.4
Tangible assets	6.4	5.6
Holdings in Group and associated companies	1.0	1.4
Inventories	9.0	10.0
Receivables	10.8	10.8
Cash and cash equivalents	4.2	4.2
Liabilities	-11.3	-11.3
Deferred tax liabilities		-1.0
Total	21.7	22.9

The assets, liabilities and contingent liabilities of this company are measured at their fair value at the time of acquisition. Intangible assets include trademarks and customer relations, the value of which is based on the discounted cash flow over the following 5-year period. Two partly owned subsidiaries of the Singaporean subgroup were sold after the acquisition. These companies have been valued at the time of acquisition at a disposal price of EUR 1.1 million.

Other acquisitions

Wärtsilä Automation Norway A/S (formerly Aker Kvaerner Power and Automation Systems AS) was acquired in February from the Norwegian Aker Kvaerner. The company supplies propulsion and automation systems for oil, gas and marine applications and for industrial purposes. The acquisition supports Wärtsilä's growth strategy and broadens its product range. The company's sales between March and December totalled EUR 39 million.

Diesel Technology Solutions BV, a Dutch company, was acquired in February, increasing the Group's manufacturing capacity. The company mainly operates as a supplier to the Group's other manufacturing units.

The German company INTEC Injectortechnik GmbH was acquired at the beginning of July, giving the Group additional expertise in fuel injection technology and related services.

The Group's Swedish subsidiary acquired the business operations of Stockholms Fartygsreparationer AB in October. This acquisition provides a platform for future expansion on Sweden's east coast.

SCHIFFKO, a German ship design group, was acquired in December. SCHIFFKO specializes in the planning and design of marine vessels. The acquisition supports the Group's strategic focus to grow as a system integrator and provider of total solutions to the shipping and shipbuilding market.

Acquisition price of above acquisitions	MEUR
Consideration paid in cash	35.0
Acquisition costs	0.7
	35.7
Acquired assets to fair value	-17.9
Goodwill	17.9

Specification of acquired assets

	Book value	Fair value
Intangible assets	0.3	7.1
Tangible assets	12.6	12.7
Inventories	5.4	5.5
Receivables	15.8	15.8
Cash and cash equivalents	6.6	6.6
Liabilities	-26.8	-26.8
Deferred tax liability	-3.4	-7.0
Total	10.5	17.9

The assets, liabilities and contingent liabilities of the companies are measured at fair value at the time of acquisition. Intangible assets include development projects, customer relations and licence agreements, the value of which is based on discounted cash flow over a useful life of 5–10 years. The goodwill calculated on these acquisitions is based mainly on the expertise of the companies' employees and on synergies that will materialize as the Group gains both additional capacity and a broader product range.

Acquisitions 2005

DEUTZ AG

At the end of March Wärtsilä acquired the service activities for DEUTZ marine engines from DEUTZ AG. In the period April–December, the net sales of the DEUTZ activities were EUR 35 million.

Acquisition price	MEUR
Consideration paid in cash	114.6
Acquisition costs	1.1
	115.7
Acquired assets to fair value	-113.1
Goodwill	2.6

Specification of acquired assets

	Fair value
Customer relations	85.2
Trademark	6.4
Technology	13.3
Machinery and equipment	0.5
Inventories	8.0
Pension obligations	-0.4
Total	113.1

Gerhardt Holding Co. Inc

At the beginning of December Wärtsilä acquired the service activities of Gerhardt Holding. The December net sales for Gerhardt activities were EUR 2 million.

Acquisition price	MEUR
Consideration paid in cash	9.8
Other direct acquisition costs	0.8
	<u>10.7</u>
Acquired assets to fair value	-10.7
Goodwill	0.0
Specification of acquired assets	Fair value
Trademark	0.6
Machinery & equipment	2.6
Inventories	4.7
Receivables	3.8
Liabilities	-0.9
Total	<u>10.7</u>

Navalips S.A.

At the beginning of December Wärtsilä acquired the remaining 50% of its former associated company Navalips. This has been consolidated as a subsidiary from the beginning of December.

Acquisition price	MEUR
Consideration paid in cash	0.2
Acquired assets to fair value	-1.1
Goodwill	-1.0

Negative goodwill has been booked in the income statement.

Specification of acquired assets	Fair value
Intangible assets	0.0
Property, plant and equipment	3.0
Inventories	1.0
Receivables	1.7
Cash and cash equivalents	0.5
Interest-bearing debt	-0.9
Non-interest-bearing debt	-3.2
Total	<u>2.2</u>
of which 50% acquired	1.1

Imatra Steel Oy

On 22 April 2005 Rautaruukki Corporation, AB SKF in Sweden and Wärtsilä Corporation signed the merger of the long steel businesses into a jointly owned new company named Oy Ovako Ab. Wärtsilä's former subsidiary, Imatra Steel Oy, became a part of the new company.

Restructuring gave EUR 5.3 million goodwill in the associated company.

Value transferred	MEUR
Equity at 30 April 2005 in Imatra Steel Group	71.6
Conversion of loan to equity	23.2
Total	<u>94.8</u>

Specification of transferred net assets

	Book value
Goodwill	1.0
Intangible assets	1.5
Property, plant and equipment	74.7
Investments available for sale	0.3
Deferred tax receivables	0.9
Inventories	66.2
Interest-bearing receivables	1.0
Trade receivables	52.8
Other receivables	4.9
Cash and cash equivalents	9.3
Non-current interest-bearing debt	-29.7
Deferred tax liabilities	-11.5
Provisions	-2.6
Current interest-bearing debt	-44.1
Trade payables	-32.0
Other current liabilities	-21.1
Total	<u>71.6</u>

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

Net sales include EUR 202.6 million (312.3) of income recognized based on the stage of completion of long-term construction contracts. The cumulative revenue recognized from long-term construction contracts in progress amounted to EUR 571.7 million (579.5), with a result of EUR 4.8 million (3.8). The total amount of advances received is EUR 489.7 million (299.8). Trade receivables from the revenue recognition netted with the advances received are EUR 8.9 million (77.3).

Long-term construction contracts

MEUR	2006	2005
Net sales in the income statement	202.6	312.3

Long-term construction projects in progress

MEUR	2006	2005
Cumulative net sales	571.1	579.5
Cumulative result	4.8	3.8
Advances received at 31 December	489.7	299.8
Trade receivables from the revenue recognition netted with the advances received at 31 December	8.9	77.3

Long-term operating and maintenance agreements

MEUR	2006	2005
Net sales in the income statement	157.8	133.8

Disposals 2005

4. Other operating income

MEUR	2006	2005
Rental income	1.3	2.1
Profit on sales of fixed assets	7.0	13.2
Government grants	6.1	2.9
Other operating income	10.3	8.6
Total	24.8	26.8

5. Material and services

MEUR	2006	2005
Raw material and consumables		
Purchases during the financial year	-1,250.7	-993.7
Change in inventories	91.4	90.6
External services	-795.7	-619.4
Total	-1,955.2	-1,522.5

6. Employee benefit expenses

MEUR	2006	2005
Wages and salaries	510.9	436.2
Pension costs		
Defined benefit plans	8.4	5.4
Other pension and past service costs	38.0	36.9
Other compulsory personnel costs	72.1	61.5
Total	629.5	540.0

Salaries and bonuses paid to management

President and CEO	0.9	0.8
Other members of the Board of Management	2.4	2.7
Board of Directors	0.3	0.3
Salaries and bonuses paid to management, total	3.6	3.8

A provision of EUR 1,9 million for expenses arising from other bonus schemes has been booked in the income statement. The provision includes expenses from a long-term bonus scheme tied to the stock development of the company's B-share. The provision amount is based on the market value of the B-share on 31 December with a two-year lead time.

Personnel on average	2006	2005
Power Businesses	13,264	11,625
Imatra Steel		424
Total	13,264	12,049

During 2005 Imatra Steel was consolidated for four months.

7. Depreciation and writedowns

Depreciation according to plan		
MEUR	2006	2005
Intangible rights	5.3	4.0
Other intangible assets	22.7	18.9
Buildings and structures	6.9	9.1
Machinery and equipment	33.4	33.3
Other tangible assets	3.2	6.3
Total depreciation according to plan	71.6	71.6

8. Financial income and expenses

Gains and losses on fair value hedges are reported net of the gain or loss on the hedged item. Only foreign exchange revaluation gains and losses arising from purely financial exposures such as loans denominated are reported in other financial items. Interest rate differences on hedges are included in other financial expenses.

MEUR	2006	2005
Dividend income	8.5	7.2
Interest income	4.0	2.9
Changes in fair values of derivative financial instruments	3.0	
Exchange rate differences	2.6	
Other financial income	17.6	5.5
Total financial income	35.7	15.6
Interest expenses, current and long-term loans	-16.8	-14.8
Changes in fair values of derivative financial instruments		-3.8
Exchange rate differences		-2.1
Other financial expenses	-26.0	-18.4
Total financial expenses	-42.8	-39.0
Total financial income and expenses	-7.1	-23.4

Net interest in the period was EUR -12.8 million (-11.9).

9. Income taxes

MEUR	2006	2005
Income taxes on operations		
for the financial year	-106.7	-42.4
for prior years	-1.6	1.9
Change in deferred taxes	14.4	-3.5
Total	-93.9	-44.0

MEUR	2006	2005
Profit before taxes	446.8	212.4
Tax calculated at the domestic corporate tax rate (26%)	-116.2	-55.2
Effect of changed tax rates	-2.1	
Effect of different tax rates in foreign subsidiaries	-4.4	-3.3
Effect of income not subject to tax and non-deductible expenses	-4.7	1.4
Utilization of previously unrecognized tax losses carried forward	33.9	12.6
Unrecognized taxes on losses carried forward	-5.5	-7.4
Other taxes	-4.9	-4.9
Effect of share of profit of associates	17.8	2.8
Other temporary differences	-6.2	8.0
Income taxes for prior years	-1.6	1.9
Tax charge	-93.9	-44.0

10. Earnings per share

Earnings per share is calculated by dividing the profit for the period attributable to shareholders by the weighted average number of the shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number by the dilutive effect of stock options outstanding during the period. The options have a dilutive effect if the exercise price with an option is lower than the market value of the share. Additional information on the option schemes (Option schemes 2001 and 2002) is presented in Note 23.

MEUR	2006	2005
Profit attributable to equity holders of the parent company (basic/diluted)	351.2	167.0
Thousands of shares		
Weighted average number of shares outstanding	94,429	93,010
Effect of issued share options	332	820
Diluted weighted average number of shares outstanding	94,760	93,830
Basic earnings per share (EUR)	3.72	1.80
Dilutes earnings per share (EUR)	3.71	1.78

11. Intangible assets

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total 2006
Acquisition cost at 1 January 2006	52.6	8.5	222.5	365.7	649.3
Changes in exchange rates	-0.4		-0.4	-3.7	-4.4
Acquisitions	3.9		10.0	55.3	69.1
Additions	6.2	8.7	7.0		21.9
Disposals			-0.5		-0.5
Intra-balance sheet transfer	-0.3	-8.3	23.1		14.5
Acquisition cost at 31 December 2006	62.0	9.0	261.7	417.3	749.9
Accumulated depreciation at 1 January 2006	-24.3		-83.9		-108.2
Changes in exchange rates	0.1		0.2		0.3
Accumulated depreciation on disposals			0.3		0.3
Depreciation during the financial year	-5.3		-22.7		-27.9
Intra-balance sheet transfer	0.1		-12.0		-11.9
Accumulated depreciation at 31 December 2006	-29.4		-118.1		-147.4
Book value at 31 December 2006	32.6	9.0	143.6	417.3	602.4

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total 2005
Acquisition cost at 1 January 2005	48.3	8.0	79.0	359.6	494.9
Changes in exchange rates	0.2		0.3	4.5	5.0
Acquisitions			105.5	2.6	108.1
Companies sold			-1.5	-1.0	-2.6
Additions	3.9	6.5	6.4	0.0	16.9
Disposals	-0.2		-6.3		-6.5
Intra-balance sheet transfer	0.4	-6.0	39.2		33.5
Acquisition cost at 31 December 2005	52.6	8.5	222.5	365.7	649.3
Accumulated depreciation at 1 January 2005	-20.4		-38.8		-58.2
Changes in exchange rates	-0.1		-0.2		-0.2
Accumulated depreciation on disposals	0.2		6.7		6.9
Depreciation during the financial year	-4.0		-18.9		-22.8
Intra-balance sheet transfer			-32.9		-32.9
Accumulated depreciation at 31 December 2005	-24.3		-83.9		-108.2
Book value at 31 December 2005	28.3	8.5	138.6	365.7	541.1

Impairment testing of goodwill

Wärtsilä has three separate Cash-Generating Units (CGUs) to which goodwill from acquisitions can directly be linked as in the below table. The Ciserv companies have been integrated into the Wärtsilä service operations during 2006 and hence do not constitute a separately identifiable CGU on 31 December 2006.

Cash-Generating Units

MEUR	Goodwill	
	2006	2005
Propulsion	259,0	262,0
Total Automation	37,4	
Ciserv		11,3
Power Businesses, other	120,9	92,5
Total	417,3	365,7

These CGUs are the lowest level of assets with goodwill for which there are separately identifiable cash flows. The recoverable amounts from the CGUs are determined on a discounted cash flow method basis, derived from 5-year cash flow projections from management-approved strategic plans. The estimated performances of the CGUs are based on utilization of the property, plant and equipment in their current condition excluding any potential future acquisitions. Cash flows for the period extending over the five-year period are calculated using the terminal value method. A steady annual growth rate of 2% is applied in projecting the terminal value.

The key driver for the valuation of the CGU Power divisions is the growth in the global economy and in particular the development of the global power market, the global shipbuilding industry and demand for related services. The valuation drivers for the Propulsion and the Total Automation CGUs are mainly the growth in the global ship building industry.

The discount rate is the weighted average pre-tax cost of capital (WACC) as defined by Wärtsilä. The components of the WACC are risk-free rate, market risk premium, industry-specific beta, cost of debt and debt equity ratio. Wärtsilä has used a WACC of 8.0% (2005: 7.8%) in the calculations.

As a result of the impairment test no impairment loss was recognized for the period ended 31 December 2005 and 2006 respectively.

Sensitivity analyses

Sensitivity analyses have been carried out for the valuation of each CGU by making downside scenarios. These downside scenarios were created by changing the underlying assumptions in the valuations such as:

- Lowering the sales growth by 1–15%
- Lowering the EBIT profitability by 1–10%
- Increasing the WACC by 1–15%

In management's opinion changes in the basic assumptions provided in these theoretical downside scenarios shall not be seen as an indication that these factors are likely to materialize. None of the downside scenarios led to a need for write-downs of goodwill.

12. Property, plant & equipment

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress & advances paid	Other tangible assets	Investment properties	Total 2006
Acquisition cost at 1 January 2006	17.7	154.8	442.8	12.7	72.9	17.2	718.1
Changes in exchange rates	-0.2	-2.2	-7.0	-0.1	-1.4		-10.9
Acquisitions	0.2	5.0	12.8		0.1		18.1
Additions	0.4	7.5	45.7	28.5	2.2		84.3
Disposals	-0.6	-2.8	-14.1	-0.9	-1.1	-2.3	-21.7
Intra-balance sheet transfer	-2.9	11.3	-1.8	-7.7	-5.2		-6.3
Acquisition cost at 31 December 2006	14.6	173.6	478.4	32.5	67.6	14.9	781.6
Accumulated depreciation at 1 January 2006		-85.8	-311.5	-0.7	-47.1		-445.2
Changes in exchange rates		0.8	3.4		1.1		5.4
Accumulated depreciation on disposals		1.9	12.5		1.0		15.3
Depreciation during the financial year		-6.9	-33.4		-3.2		-43.6
Intra-balance sheet transfer		-5.8	4.6		2.7		1.5
Accumulated depreciation at 31 December 2006		-95.8	-324.5	-0.7	-45.5		-466.6
Book value at 31 December 2006	14.6	77.8	153.9	31.7	22.1	14.9	315.0
Value of finance-leased assets included in book value		0.5	9.2		0.5		10.2

Investment properties include land areas not used by the Group. Their estimated market value is around EUR 25–30 million. During the period, investment properties were sold totalling EUR 9.3 million (19.3) generating a profit of EUR 5.8 million (8.7).

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress & advances paid	Other tangible assets	Investment properties	Total 2005
Acquisition cost at 1 January 2005	24.8	213.2	649.1	11.5	66.0	14.2	978.8
Changes in exchange rates	0.1	2.4	7.8	0.3	1.9		12.6
Acquisitions	1.9	0.4	3.6	0.1			6.0
Sold companies	-3.6	-12.4	-53.6	-4.4	-0.7		-74.7
Additions		8.3	35.0	12.7	6.2		62.1
Disposals	-6.1	-52.7	-202.9	-0.2	-2.0	-2.2	-266.1
Intra-balance sheet transfer	0.6	-4.3	3.7	-7.3	1.4	5.2	-0.6
Acquisition cost at 31 December 2005	17.7	154.8	442.8	12.7	72.9	17.2	718.1
Accumulated depreciation at 1 January 2005		-104.4	-473.2	-0.5	-43.7		-621.8
Changes in exchange rates		-0.7	-3.6	-0.1	-1.3		-5.7
Accumulated depreciation on disposals and transfers		28.4	198.5	-0.1	4.2		231.1
Depreciation during the financial year		-9.1	-33.3	0.0	-6.3		-48.7
Accumulated depreciation at 31 December 2005		-85.8	-311.5	-0.7	-47.1		-445.2
Book value at 31 December 2005	17.7	69.0	131.3	11.9	25.8	17.2	272.9
Value of finance-leased assets included in book value		0.7	3.5		0.3		4.5

13. Investments in associated companies

MEUR	2006	2005
Book value at 1 January	108.5	2.8
Buying of shares		95.6
Share of results	68.3	10.9
Dividends		-0.4
Selling / decrease of shares	-168.1	-0.5
Book value at 31 December	8.7	108.5

Summary financial information on associates (100%) is as follows:

2006		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
MEUR							
Oy Ovako Ab	Finland	26.5	666.3 ¹	6.3	660.0 ¹	1,200.2	282.2
AWEK Industrial Patents Ltd. Oy	Finland	25.0	0.5	0.2	0.3	2.4	0.2
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	15.9	9.9	6.0	31.2	1.7
Repropel Sociedad de reparacao de helices	Portugal	50.0	1.0	0.6	0.4		
WD Power Investment Ky	Finland	21.7	6.4	0.0	6.4	0.0	0.0

¹ Assets and Equity of Oy Ovako Ab include the pre-liquidation payment paid to owners as an advance.

2005		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
MEUR							
Oy Ovako Ab	Finland	26.5	839.4	459.0	380.4	868.7	39.3
AWEK Industrial Patents Ltd. Oy	Finland	25.0	0.3	0.2	0.1	2.0	-0.1
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	17.1	12.1	5.0	27.4	2.1
Repropel Sociedad de reparacao de helices	Portugal	50.0	0.9	0.7	0.2	0.9	0.1
WD Power Investment Ky	Finland	21.7	8.9	0.0	8.9	0.0	0.2

14. Wärtsilä's holding in Oy Ovako Ab

Wärtsilä owns 26.5% of the shares of Oy Ovako Ab. In July the company's three owners – Rautaruukki, SKF and Wärtsilä – decided to sell the operating companies to a company owned by Homborgh Holdings BV's shareholders, WP de Pundert Ventures BV and Pampus Industrie Beteiligungen GmbH & Co. KG at a price of approximately EUR 660 million, of which Wärtsilä received EUR 174.9 million net of costs. The transaction was executed on 17 November 2006 with Ovako selling its subsidiary and the owners decided thereafter to liquidate the holding companies. Ovako has paid a large part as pre-liquidation proceeds to the owners, and the owners have given guarantees for any commitments that may arise. Ovako's impact on the consolidated financial statements is described in the following summary. Impact on the consolidated income statement:

MEUR	2006	2005
Impact on the consolidated income statement		
Share of profit of associates		
Operational result ¹	18.1	10.3
Liquidation proceeds	49.3	
	67.4	10.3

¹ From January to September 2006; from May to December 2005

Impact on the consolidated balance sheet		
Shares in associated companies	5.6	106.1
Interest-bearing receivables	29.3	21.2
Non-interest-bearing receivables	4.0	
Received pre-liquidation payment	136.0	
	174.9	127.3

15. Joint ventures

The Group has a 50% interest in the joint venture company Wärtsilä Qiyao Diesel Company Ltd. in Shanghai, China. The other owner is China Shanghai Marine Diesel Research Institute, a subsidiary of China Shipbuilding Industry Corporation (CSIC). At the end of 2005 the company was in the start-up stage. Summary financial information 2006 (100%):

MEUR	Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd. China	50.0	10.8	1.8	9.0	-	-0.4

16. Available-for-sale investments

Available-for-sale investments include listed and unlisted shares. Listed shares are measured at fair value. For unlisted shares the fair value cannot be measured reliably, in which case the investment is carried at cost.

MEUR	2006	2005
Book value at 1 January	284.4	68.4
Changes in exchange rates	-1.9	1.8
Acquisitions	0.3	3.0
Disposals	-24.7	-1.1
Fair value adjustment	33.7	212.2
Book value at 31 December	182.8	284.4
Selling profit in the income statement	123.9	0.5

Selling profit in 2006 concerns the sale of Assa Abloy Ab shares.

MEUR	Book value	2006 Market value	Book value	2005 Market value
Shares				
Sampo Plc A	3.8	38.6	3.8	28.0
Technopolis Plc	0.1	0.1	0.1	0.0
Assa Abloy Ab	17.6	119.8	41.8	229.9
Listed shares	21.5	158.5	45.7	258.0
Other shares	24.3	24.3	26.4	26.4
Total shares	45.8	182.8	72.1	284.4

17. Inventories

MEUR	2006	2005
Materials and consumables	416.1	318.6
Work in progress	316.2	237.1
Finished goods	74.2	56.1
Advances paid	30.9	26.8
Total	837.5	638.6

EUR 14.5 million of the stock increase is related to the acquisitions.

18. Trade receivables, interest-bearing receivables and other receivables

MEUR	2006	2005
Non-current		
Non-interest-bearing		
Loan receivables	6.0	2.4
Other receivables	1.6	1.7
Interest-bearing		
Interest-bearing investments, associated companies	1.0	22.7
Interest-bearing investments, others	34.2	4.5
Total	42.8	31.4
Current		
Non-interest-bearing		
Trade receivables from associated companies	5.1	3.4
Trade receivables from others	767.1	666.8
Loan receivables	8.7	0.2
Accrued receivables from associated companies		0.7
Other receivables	142.8	106.7
Interest-bearing receivables	1.0	0.9
Total	924.7	778.7
Other receivables		
Interest receivables	0.8	1.0
Other financial items	17.1	5.7
Insurance receivables	3.2	1.7
Rental receivables	3.3	2.3
Project accruals	5.7	4.4
Other accruals	37.4	29.4
Other receivables	76.8	63.9
Total	144.4	108.5
Non-current	1.6	1.7
Current	142.8	106.7

19. Cash and cash equivalents

MEUR	2006	2005
Cash and bank balances	164.1	99.9
Financial assets	15.4	19.8
Total	179.4	119.6

20. Deferred taxes

MEUR	2006	2005
Deferred tax assets		
Tax loss carry-forwards	43.3	41.0
Pension obligations	3.3	4.9
Provisions	9.4	
Fair value adjustments	0.2	
Group eliminations	11.9	10.8
Other temporary differences	18.7	21.0
Total	86.7	77.6
Deferred tax liabilities		
Tangible and intangible assets	10.0	6.9
Fair value adjustments	44.7	56.2
Group eliminations	3.6	
Other temporary differences	15.6	15.7
Total	74.0	78.8
Net deferred tax assets/liabilities	12.7	-1.1

At 31 December 2006 the Group had temporary differences on which no deferred tax receivables were booked totalling EUR 45.0 million (71.8), as it is uncertain if they will be realized. Most of them were related to cumulative losses, in total EUR 41.0 million (69.0).

Change in deferred taxes during reporting period

MEUR	1 January 2006	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions	31 December 2006
Deferred tax assets						
Tax loss carry-forwards	41.0	2.6		-0.3		43.3
Pension obligations	4.9	-1.6				3.3
Provisions		9.4				9.4
Fair value adjustments			0.2			0.2
Group eliminations	10.8	1.1				11.9
Other temporary differences	21.0	-1.9		-0.7	0.3	18.7
Total	77.6	9.6	0.2	-0.9	0.3	86.7
Deferred tax liabilities						
Tangible and intangible assets	6.9	-3.9		-0.2	7.2	10.0
Fair value adjustments	56.2	-4.6	-6.9			44.7
Group eliminations		3.6				3.6
Other temporary differences	15.7			-0.1		15.6
Total	78.8	-4.9	-6.9	-0.3	7.2	74.0
Net deferred tax liabilities/assets	-1.1	14.4	7.1	-0.7	-6.9	12.7

21. Pension obligations

MEUR	2006	2005
Recognised net liability for defined benefit obligations	22.7	22.0
Long-service leave and other past service obligations	29.9	30.2
Total past service obligation at 31 December	52.5	52.2

Pension cover is based on the legislation and agreements in force in each country. In Finland most of the pension obligations are covered by the Employee Pensions system (TEL). The largest defined benefit plans are used in the Netherlands, Switzerland and the United Kingdom. Most of these defined benefit pension plans are managed by pension funds and their assets are not included in the Group's assets. Wärtsilä's subsidiaries make their payments to pension funds in accordance with the local legislation and practice in each country. Authorized actuaries in each country have performed the actuarial calculations required for the defined benefit plans.

Long-service leave and other past service obligations are mainly obligation for severance pay in Italy and France.

Movement in defined benefit obligations

Defined benefit obligations at 1 January	292.7	268.8
Exchange rate differences	-4.5	-0.3
Current service costs	8.7	7.7
Interest cost	8.0	11.4
Benefits paid	-10.6	-11.1
Changes in actuarial (gain) losses	10.2	16.0
Impact of acquired and disposed companies and other changes	2.7	0.2
Defined benefit obligations at 31 December	307.4	292.7

Movement in plan assets

Fair value of plan assets at 1 January	291.9	250.7
Exchange rate differences	-4.7	-0.2
Contribution paid to the fund	9.6	11.1
Benefits paid by the plan	-10.2	-10.6
Expected return on plan assets	8.4	12.9
Actuarial gains (losses)	-0.7	28.2
Impact of acquired and disposed companies and other changes	0.4	0.0
Fair value of plan assets at 31 December	294.8	291.9
Unrecognised assets	-15.5	-15.4
Recognised fair value of plan assets at 31 December	279.3	276.6

Unrecognised actuarial gain (+) loss (-)

Unrecognised actuarial gain (+) loss (-) at beginning of year	5.9	-6.0
Exchange rate differences	-0.4	0.0
Actuarial gain(+) loss(-) for year-obligation	-10.2	-16.0
Actuarial gain(+) loss(-) for year-plan assets	-0.7	28.2
Subtotal	-5.3	6.2
Actuarial gain(-) loss(+) recognised	0.0	-0.3
Unrecognised actuarial gain (+) loss (-) at the year end	-5.4	5.9
Recognised net liability for defined benefit obligations	22.7	22.0

Expenses recognised in income statement

Current service costs	8.7	7.7
Interest on obligation	8.0	11.4
Expected return on plan assets	-8.4	-12.9
Actuarial (gains) and losses	0.0	-0.5
Gains and losses on curtailments and settlements	0.2	-0.4
Defined benefit expenses	8.4	5.4
Actual return on plan assets	7.3	24.2

Historical information

Present value of the defined benefit obligation	307.4	292.7
Fair value of plan assets	-294.8	-291.9
Deficit in the plan	12.5	0.8

Actuarial assumptions 2006

	Europe	Other
Discount rate (%)	3.0–5.1	2.0–10.0
Expected return on plan assets (%)	4.0–6.9	2.5–10.0
Future salary increases (%)	1.2–4.0	1.0–10.0

Actuarial assumptions 2005

	Europe	Other
Discount rate (%)	3.5–6.0	2.0–13.0
Expected return on plan assets (%)	4.0–6.5	2.5–9.0
Future salary increases (%)	1.5–4.0	1.0–10.0

22. Share capital of the parent company

Share capital	Number of shares	Share capital	Share issue premium	Total
1 January 2005	92,550,617	323.9	27.3	351.2
Bonds with options subscribed	1,556,499	5.4	16.7	22.2
31 December 2005	94,107,116	329.4	44.0	373.4
Bonds with options subscribed	1,447,236	5.1	14.0	19.0
31 December 2006	95,554,352	334.4	58.0	392.4

23. Option rights

Changes in option rights 2006	Option scheme 2001		Option scheme 2002		Total
	Option rights	Shares based on option rights	Option rights	Shares based on option rights	
1 January 2006	819,634	1,229,451	442,700	664,050	1,893,501
Shares subscribed with option rights	692,150	1,038,225	272,674	409,011	1,447,236
31 December 2006	127,484	191,226	170,026	255,039	446,265

Option 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 for 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. Trading in the 2001 options began on the Helsinki Stock Exchange on 7 March 2005.

The AGM on 12 March 2002 approved a new option scheme for key persons in Wärtsilä Group. The number of options is 800,000 and they may be exercised to subscribe for 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 subscription of shares will be deducted from the subscription price. Trading in the 2002 options began on the Helsinki Stock Exchange on 1 April 2004.

Under the terms and conditions of Wärtsilä's 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 holder to subscribe for three (3) Wärtsilä Corporation B shares. The effect of the extra dividend on the share subscription price of the 2001 options is EUR 14.60 and on the share subscription price of the 2002 options EUR 7.40.

Under IFRS 2 the fair value of employee options is to be reported as an expense and an increase in shareholders' equity. This does not apply to any existing option programmes of the Group, as these were exercisable when IFRS 2 came into force.

Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 251,406 Wärtsilä Corporation shares, which represent 0.3% of the stock and 0.3% of the voting rights.

Under the 2002 option scheme issue the CEO and his deputy hold altogether 58,000 option rights, entitling them to subscribe for at most 87,000 shares, or 0.09% of the current total number shares and 0.03% of the voting rights.

24. Fair value and other reserves

MEUR	Cash flow hedges	Other hedges	Investments available for sale	Total
Difference between fair value and book value at 1 January 2005	58.8	-0.8	191.2	249.1
Deferred tax liability	-15.5	0.2	-49.7	-64.9
Fair value and other reserves at 1 January 2005	43.3	-0.6	141.5	184.2
Fair value adjustments	-71.6	-0.2	21.1	-50.7
Deferred tax liability	18.9	0.1	-5.5	13.5
Fair value and other reserves at 31 December 2005	-9.3	-0.8	157.1	146.9
Transferred to income statement, net of taxes	2.9	0.2	-80.6	-77.4
Fair value adjustments	45.4		33.7	79.0
Deferred tax liability	-11.6		-8.8	-20.3
Fair value and other reserves at 31 December 2006	27.4	-0.6	101.4	128.2

25. Provisions

2006		Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total 2006
MEUR	Litigation					
Provisions at 1 January 2006	5.3	67.0	16.1	16.7	16.2	121.2
Changes in exchange rates		-0.6	-0.1		-0.1	-0.8
Additions	1.3	62.3	19.9		14.6	98.2
Used provisions	-1.9	-44.2	-19.2	-7.5	-6.4	-79.3
Released provisions			-1.1	-0.8	-1.0	-2.9
Provisions at 31 December 2006	4.7	84.6	15.5	8.3	23.3	136.5
Non-current						19.5
Current						117.0
2005		Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total 2005
MEUR	Litigation					
Provisions at 1 January 2005	9.7	70.5	22.0	41.0	6.5	149.8
Changes in exchange rates		0.4	0.1			0.4
Additions	2.4	39.9	7.8		9.3	59.3
Used provisions	-2.3	-43.8	-8.1	-24.0	-1.7	-79.9
Released provisions	-4.5		-5.7	-0.2	1.8	-8.6
Provisions at 31 December 2005	5.3	67.0	16.1	16.7	16.2	121.2
Non-current						17.0
Current						104.1

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

26. Interest-bearing liabilities

MEUR	2006		2005	
	Book value	Fair value	Book value	Fair value
Non-current				
Loans from financial institutions	177.2	177.2	186.8	186.8
Loan from pension institutions	15.2	15.3	32.6	32.9
Finance lease liabilities	9.2	9.2	3.7	3.7
Other loans	3.0	3.0	6.3	6.3
Total	204.6	204.7	229.4	229.7
Current				
Current portion of long-term loans from financial institutions	12.6	12.6	5.9	5.9
Current portion of long-term loans from pension institutions	17.4	17.4	25.8	26.1
Finance lease liabilities	1.8	1.8	1.4	1.4
Current portion of other long-term interest-bearing loans	3.0	3.0	0.7	0.6
Loans from financial institutions, short-term	29.6	29.6	138.0	138.0
Other liabilities	1.3	1.3	2.6	2.6
Total	65.8	65.8	174.2	174.6

Long-term debt with maturity profile

MEUR	Bank loans	Pension loans	Finance lease	Other loans	Total
2007	12.6	17.4	1.8	3.0	34.8
2008	16.8	9.4	1.8	3.0	31.0
2009	49.6	4.2	1.7		55.5
2010	64.2	1.0	1.6		66.8
2011	14.2	0.3	1.1		15.6
2012→	32.5	0.2	3.0		35.7
Total 31 December 2006	189.9	32.6	11.0	6.0	239.5
Total 31 December 2005	192.6	58.4	5.1	7.0	263.1

Division of long-term loans by currency	31 Dec. 2006	31 Dec. 2005
EUR	97%	98%
Other currencies	3%	2%

27. Other liabilities

MEUR	2006	2005
Project costs	265.9	207.6
Personnel costs	94.7	77.6
Interest and other financial items	13.4	24.2
Other accruals	92.3	76.0
Other liabilities	37.5	26.8
Total	503.8	412.2
Non-current	1.1	1.5
Current	502.7	410.7

28. Financial instruments

The Group applies hedge accounting to significant foreign currency forward contracts.

MEUR	2006	2005
Nominal values of derivative financial instruments		
Interest rate swaps	140.0	180.0
Currency forwards		
Transaction risk	831.7	958.7
Translation risk	199.5	188.8
Currency options, written	7.7	39.2
Currency options, purchased	22.4	40.3
Total	1,201.2	1,407.0

Fair values of derivative financial instruments

Interest rate swaps	2.7	0.5
Currency forwards		
Transaction risk	5.7	-9.7
Translation risk	0.4	-1.9
Currency options, written		-0.2
Currency options, purchased	-0.2	-4.1
Total	8.6	-15.4

Foreign currency forward contracts fall due during the following 12 months. Interest rate swaps are denominated in euros and their average interest-bearing period is 48 months.

29. Collateral, contingent liabilities and other commitments

MEUR	2006		2005	
	Balance sheet debt	Collateral	Balance sheet debt	Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	3.3	4.4	2.9	4.0
Pension loans	3.6	6.0	0.7	1.0
Off-balance-sheet commitments		10.0		10.0
Total	6.9	20.4	3.6	15.0

Chattel mortgages given as collateral for liabilities and commitments

Loans from credit institutions	2.9	2.9	3.8	3.8
Off-balance-sheet commitments	5.9	18.2	6.2	19.3
Total	8.8	21.1	10.0	23.1

MEUR	2006	2005
Guarantees and contingent liabilities on behalf of Group companies	316.8	290.0

Nominal amounts of rents according to leasing contracts

Payable within one year	12.3	10.8
Payable later	37.8	26.6
Total	50.1	37.4

In addition to these, the Group has guaranteed possible commitments related to the liquidation procedure of Oy Ovako Ab.

30. Related party disclosures

Related parties comprise the associated companies, the Board of Directors, the President and CEO, and the Board of Management.

Salaries and bonuses paid to management

In thousands of euro	2006	2005
President and CEO		
Salaries and other short-term benefits	493	437
Bonuses	403	408
	897	845
Other members of the Board of Management		
Salaries and other short-term benefits	1,355	1,375
Bonuses	1,023	1,327
	2,387	2,702

Board of Directors

Antti Lagerroos, chairman	74	74
Göran J. Ehrnrooth, deputy chairman	50	51
Heikki Allonen, member	36	36
Risto Hautamäki, member	35	36
Jaakko Iloniemi, member	35	36
Bertel Langenskiöld, member	35	34
Matti Vuoria, member	35	34
	301	299

Salaries and bonuses paid to management, total 3,575 3,846

The holdings of the President and CEO, and the members of the Board of Directors and Board of Management at the year end were as follows:

Options	65,000	329,000
Shares	72,477	72,080

Altogether 97,500 shares may be subscribed under these options, representing 0.1% of all the shares and 0.0% of the votes. The shares owned by management represent 0.1% of all the shares and 0.1% of the votes. The members of the Board of Directors do not own any options.

The President and CEO and the members of the Board of Management are entitled to retire on reaching 60 years of age.

The Group has no loan receivables from the executive management or the Board of Directors.

No pledges or other commitments have been given on behalf of management or shareholders.

The company has EUR 5.1 million in trade receivables from its associated companies

31. Exchange rates

	31 Dec. 2006	Closing rates 31 Dec. 2005	2006	Average rates 2005
USD	1.31700	1.17970	1.25566	1.18857
GBP	0.67150	0.68530	0.68182	0.67997
SEK	9.04037	9.38853	9.25332	9.47177
NOK	8.23798	7.98499	8.04628	7.87930
DKK	7.45601	7.46052	7.45913	7.45857
CHF	1.60690	1.55510	1.57308	1.54727
JPY	156.93660	138.90817	146.06250	139.40667
SGD	2.02020	1.96280	1.99398	2.00660
INR	58.22416	53.12085	57.00799	53.79582

32. Events after the end of the period

Wärtsilä and Hyundai Heavy Industries Co. Ltd (HHI) signed an agreement on 23 January 2007 to set up a 50/50-owned joint venture in Korea to manufacture dual-fuel engines for LNG (liquefied natural gas) carriers. The total investment in the company will be EUR 58 million, Wärtsilä's share being EUR 29 million. The name of the company will be Wärtsilä Hyundai Engine Company Ltd.

33. Shares and securities

Company name and location	Share %	Company name and location	Share %
Wärtsilä Technology Oy Ab	Finland 100.0	Wärtsilä Canada Inc.	Canada 100.0
Wärtsilä Finland Oy	Finland 100.0	Wärtsilä de Mexico SA	Mexico 100.0
Wärtsilä Operations & Management Ltd Oy	Finland 100.0	Wärtsilä Caribbean, Inc.	Puerto Rico 100.0
Wärtsilä Biopower Oy	Finland 100.0	Wärtsilä Dominicana, Inc.	Dominican Republic 100.0
Wärtsilä Nederland B.V.	The Netherlands 100.0	Wärtsilä Lanka	Sri Lanka 100.0
Wärtsilä Nederland Kruiningen B.V.	The Netherlands 100.0	Wärtsilä Guatemala S.A.	Guatemala 100.0
Wärtsilä Automation Nederland B.V.	The Netherlands 100.0	Wartsila Operations, Inc.	USA 100.0
DTS-Zwolle B.V.	The Netherlands 100.0	Wärtsilä Latin America Ltd.	Bermuda 100.0
Wärtsilä Italia S.p.A.	Italy 100.0	Wärtsilä Chile Ltda.	Chile 100.0
Wärtsilä Switzerland Ltd.	Switzerland 100.0	Wärtsilä Ecuador S.A.	Ecuador 100.0
Wärtsilä France S.A.S.	France 100.0	Wärtsilä do Brasil Ltda.	Brazil 100.0
Wärtsilä Lips Defence S.A.	France 100.0	Wärtsilä Colombia S.A.	Colombia 100.0
Whesoe S.A.	France 100.0	Wärtsilä Peru S.A.	Peru 100.0
Wärtsilä Propulsion Netherlands B.V.	The Netherlands 100.0	Wärtsilä Argentina S.A.	Argentina 100.0
Wärtsilä Propulsion Singapore Pte Ltd	Singapore 100.0	Wärtsilä Venezuela, C.A.	Venezuela 100.0
Wärtsilä-CME Zhenjiang Propeller Co. Ltd	China 55.0	Wärtsilä Development & Financial Services Oy	Finland 100.0
Wärtsilä Propulsion (Wuxi) Co. Ltd.	China 100.0	Wärtsilä Singapore Pte Ltd.	Singapore 100.0
Wärtsilä Propulsion Spain S.A.	Spain 100.0	Total Automation Pte Ltd.	Singapore 100.0
Wärtsilä Danmark A/S	Denmark 100.0	Wärtsilä China Ltd.	Hong Kong 100.0
Wärtsilä Sweden AB	Sweden 100.0	Wärtsilä Engine (Shanghai) Co Ltd	China 100.0
Wärtsilä Norway A/S	Norway 100.0	Wärtsilä Shanghai Services Ltd.	China 100.0
Wärtsilä Propulsion Norway A/S	Norway 100.0	Wärtsilä Korea Ltd.	South Korea 100.0
Wärtsilä Automation Norway A/S	Norway 100.0	Wärtsilä Taiwan Ltd.	Taiwan 96.7
Wärtsilä Ibérica S.A.	Spain 100.0	Wärtsilä Philippines Inc.	Philippines 100.0
Wärtsilä Portugal Lda.	Portugal 100.0	PT. Wärtsilä Indonesia	Indonesia 100.0
Wärtsilä Deutschland GmbH	Germany 100.0	Wärtsilä Australia Pty Ltd.	Australia 100.0
Wärtsilä Intec GmbH	Germany 100.0	Wärtsilä India Ltd.	India 89.6
SCHIFFKO GmbH	Germany 100.0	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan 100.0
Wärtsilä BLRT Estonia Oü	Estonia 51.7	Wärtsilä Bangladesh Ltd.	Bangladesh 100.0
Wärtsilä BLRT Services Klaipeda UAB	Lithuania 51.0	Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia 60.0
Deep Sea Seals Ltd	Great Britain 100.0	Wärtsilä Gulf FZE	United Arab Emirates 100.0
Wärtsilä UK Ltd.	Great Britain 100.0	Ciserv UAE LLC	United Arab Emirates 51.0
Whesoe Total Automation Ltd.	Great Britain 100.0	Wärtsilä South Africa (Pty) Ltd.	South Africa 100.0
Wärtsilä Ireland Ltd.	Ireland 100.0	Wärtsilä Eastern Africa Ltd	Kenya 100.0
Wärtsilä Polska Sp.z.o.o.	Poland 100.0	Wärtsilä West Africa S.A.	Senegal 100.0
Wärtsilä Greece S.A.	Greece 100.0	Wärtsilä Japan Company Ltd	Japan 100.0
Wärtsilä-Enpa A.S.	Turkey 51.0	Japan Marine Technologies Ltd	Japan 99.7
Wärtsilä Arab Mediterranean Power Ltd	Egypt 100.0	Chuwac Engineering Pte Ltd	Singapore 99.7
Wärtsilä Lips Inc.	USA 100.0	Wärtsilä CIS Ltd.	Russia 100.0
Wärtsilä North America, Inc.	USA 100.0	Wärtsilä Services St. Petersburg	Russia 100.0
Wärtsilä Automation North America Inc.	USA 100.0	Vulcan Insurance Ltd.	Great Britain 100.0
Wärtsilä Development & Financial Services Inc.	USA 100.0		

A complete list of shares and securities in accordance with the Finnish Companies Act is included in the official financial statements of the parent company.

34. Financial risks

General

Wärtsilä has a centralized Group Treasury with two main objectives. It arranges adequate funding for the Group's underlying operations on competitive terms. The Treasury also identifies and evaluates the financial risks within the Group and implements the hedges for the Group companies.

The objective is to hedge against unfavourable changes in the financial markets and to minimize the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and shareholders' equity.

The Financial Risk Policy is approved by the Board of Directors. The Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

Foreign exchange risk

Foreign exchange exposures are monitored at the Business level and then netted and hedged at Group level. All fixed sales and purchase contracts are hedged on a net basis. The estimated future commercial exposures are evaluated by the Businesses and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS is applied to most of the hedges of these exposures. The hedges cover such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its balance sheet position, which includes receivables and payables denominated in foreign currencies. Some 64% of sales and 65% of operating costs in 2006 were denominated in euros. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: USD, GBP, JPY and KRW.

The instruments, and their nominal values, used to hedge the Group's foreign exchange exposures are listed in Note 28.

Since Wärtsilä has subsidiaries outside the euro zone, the Group's shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2006 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 314 million, of which EUR 199 million was hedged.

Currency distribution 2006

	Net sales	Operating cost
Euro zone	64%	65%
USD	15%	10%
NOK	3%	4%
CHF	2%	3%
Other EU	3%	4%
SGD	2%	2%
Other	11%	11%
	100%	100%

Interest rate risk

Wärtsilä is exposed to interest rate risk primarily through market value changes to the net debt portfolio (price risk) and also through changes in interest rates (re-fixing on roll-overs). Wärtsilä hedges interest rate exposure by using derivative instruments such as interest rate swaps, futures and options. Changes in the market value of these derivatives are booked direct to the Income Statement. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis.

Interest-bearing loan capital at the end of 2006 totalled EUR 270.4 (403.6) million. The average interest rate was 3.8% (3.0%) and the average re-fixing time 10 (7) months. The maturity profile, division by currency and other information on debt is provided in Note 26. At the end of 2006 a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 5.7 million increase/decrease in the value of the net debt portfolio including derivatives.

Wärtsilä spreads its interest rate risk exposure by taking both fixed and floating rate loans. The share of floating rate loans as a proportion of the total debt can vary between 30–70%. At the end of 2006 the floating rate portion of total loans was 71% after adjustment for interest rate derivatives.

Liquidity and refinancing risk

Wärtsilä ensures sufficient liquidity at all times by efficient cash management and by keeping large enough committed and uncommitted credit lines available.

The existing funding programmes include:

- Committed Revolving Credit Facilities totalling EUR 385 million.
- Finnish Commercial Paper programmes totalling EUR 600 million.

The average maturity of the long-term loans is 46 months and the average maturity of the confirmed credit lines is 36 months.

Wärtsilä Group's liquidity is good. Wärtsilä had cash reserves totalling EUR 179.4 million at the year end as well as EUR 385 million in non-utilized committed credit facilities and substantial Commercial Paper programmes. Wärtsilä minimizes its refinancing risk by having a balanced and sufficiently long loan portfolio.

Credit risk

The responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group companies. Major trade and project finance credit risks are minimized by transferring risks to banks, insurance companies and export credit organizations. The company's long-term suppliers' credits granted mainly for emerging markets totalled EUR 1.2 million at the end of 2006. No losses were recorded on suppliers' credits.

Wärtsilä has a Vendor Note receivable and some other minor receivables totalling EUR 33 million, maturing within 2–6 years, from the new owners of the sold Oy Ovako Ab shareholding.

Credit risks related to the placement of liquid funds and to trading in financial instruments are minimized by setting explicit limits for the counterparties and by making agreements only with the most reputable domestic and international banks and financial institutions.

The Group companies deposit all their liquid financial assets with the centralized treasury (Wärtsilä Finance) if local laws and central bank regulations allow it. The Group's funds are placed in instruments with sufficient liquidity (short-term bank deposits or Finnish Commercial Papers) and rating (at least single-A rated instruments or other instruments approved by the Group CFO). These placements are constantly monitored by Wärtsilä Finance and Wärtsilä does not expect any defaults from the placements.

Equity price risk

Wärtsilä has investments in publicly quoted shares (Note 16). The market value of these shares at the end of 2006 was EUR 158.5 million.

Wärtsilä also has equity investments totalling EUR 25.7 million in power plants companies, most of which are located in developing countries and performing well according to expectations.

Parent Company Financial Statements

Parent Company Income Statement (FAS)

MEUR	Note	2006	2005
Net sales	1	2.7	1.6
Other operating income	2	296.4	51.2
Personnel expenses	3	-27.0	-28.8
Depreciation and write-downs	4	-9.5	-9.6
Other operating expenses		76.3	-68.9
Operating result		186.3	-54.6
Financial income and expenses	5		
Income from financial assets		162.8	6.5
Interest income and other financial income		41.0	21.5
Exchange gains and losses		12.2	-13.2
Interest expenses and other financial expenses		-22.8	-25.8
		193.2	-10.9
Result before extraordinary items		379.6	-65.5
Extraordinary items	6		
Group contribution		102.4	73.8
Result before appropriations and taxes		482.0	8.3
Appropriations			
Change in depreciation difference		-2.5	0.4
Result before taxes		479.5	8.7
Income taxes	7	-60.9	-1.4
Result for the financial period		418.6	7.3

Parent Company Balance Sheet (FAS)

MEUR	Note	31 Dec. 2006	31 Dec. 2005
ASSETS			
Fixed assets	8		
Intangible assets			
Intangible rights		0.3	0.4
Other long-term expenditure		32.6	27.7
Construction in progress		6.2	7.9
		39.1	36.0
Tangible assets			
Land and water		8.3	9.9
Buildings and structures		3.6	1.2
Machinery and equipment		0.9	1.8
Other tangible assets		0.7	0.7
Construction in progress		2.1	2.3
		15.7	16.0
Financial assets			
Shares in Group companies		449.7	449.7
Long-term loan receivables from Group companies		2.4	3.1
Shares in associated companies			69.8
Receivables from associated companies		1.0	1.5
Other shares and securities		20.3	36.5
		473.5	560.7
Fixed assets and other long-term financial assets		528.3	612.7

MEUR	Note	31 Dec. 2006	31 Dec. 2005
Long-term receivables	9		
Receivables from Group companies		35.6	20.5
Receivables from associated companies			21.2
Loan receivables		36.4	2.0
		72.1	43.7
Short-term receivables	10		
Trade receivables		0.2	0.2
Receivables from Group companies		1,043.7	676.5
Receivables from associated companies			0.7
Loan receivables		8.3	0.4
Other receivables		3.6	9.7
Prepaid expenses and accrued income	11	18.2	10.3
		1,074.0	697.8
Financial assets			
Other securities			4.2
			4.2
Cash and bank balances		78.6	34.3
Total current assets		1,224.7	780.1
Assets		1,753.0	1,392.8

Parent Company Balance Sheet (FAS)

MEUR	Note	31 Dec. 2006	31 Dec. 2005
SHAREHOLDER' EQUITY AND LIABILITIES			
Shareholders' equity	12		
Share capital		334.4	329.4
Share premium reserve		58.0	44.0
Retained earnings		167.2	444.6
Result for the financial year		418.6	7.3
Total shareholders' equity		978.2	825.3
Accumulated appropriations			
Depreciation difference		5.0	2.5
Provisions	13	2.5	2.5
Liabilities			
Long-term	14		
Loans from credit institutions		161.9	169.0
Pension loans		12.6	29.0
		174.4	198.0
Current	16		
Loans from credit institutions		26.5	132.6
Pension loans		16.4	24.7
Trade payables		2.9	2.9
Liabilities to Group companies		469.1	172.4
Other current liabilities		1.3	1.5
Accrued expenses and deferred income	15	76.6	30.3
		592.8	364.5
Total liabilities		767.3	562.4
Shareholders' equity and liabilities		1,753.0	1,392.8

Parent Company Cash Flow Statement (FAS)

MEUR	2006	2005
Cash flow from operating activities:		
Operating result	186.3	-54.6
Adjustments for:		
Depreciation and write-down	9.5	9.6
Selling profit and loss of fixed assets	-239.3	-11.9
Other changes		-4.1
Cash flow before changes in working capital	-43.5	-60.9
Changes in working capital		
Current assets, non-interest-bearing, increase (-) / decrease (+)	-14.9	6.6
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	5.5	16.9
	-9.4	23.5
Cash flow from operating activities before financial items and taxes	-52.9	-37.5
Interest and other financial expenses	-43.7	-40.3
Dividends received from operating activities	154.9	0.1
Interest and other financial income from operating activities	61.6	35.6
Income taxes	-7.5	-23.7
	165.4	-28.3
Cash flow from operating activities (A)	112.5	-65.8

MEUR	2006	2005
Cash flow from investing activities:		
Investments in shares		-24.0
Investments in other tangible and intangible assets	-15.4	-12.9
Proceeds from sale of shares	317.5	1.2
Proceeds from sale of tangible and intangible assets	0.2	16.6
Loan receivables, increase (-), decrease (+)	1.2	1.1
Dividends received from investments	7.9	6.4
Cash flow from investing activities (B)	311.5	-11.7
Cash flow after investing activities	424.0	-77.4
Cash flow from financing activities:		
Issuance of share capital	19.0	22.1
Loans receivable, increase (-) / decrease (+)	-281.8	-50.7
Current loans, increase (+) / decrease (-)	182.2	86.5
New long-term loans	9.7	49.0
Amortization and other changes to long-term loans	-33.0	-58.3
Group contributions	3.3	57.3
Paid dividends	-283.2	-83.3
Cash flow from financing activities (C)	-383.7	22.6
Change in liquid funds (A+B+C), increase (+) / decrease (-)	40.2	-54.8
Liquid funds at beginning of period	38.5	93.3
Liquid funds at end of period	78.6	38.5

Accounting Principles for the Parent Company

The financial statements of the parent company, Wärtsilä Corporation, have been prepared in accordance with the provisions of the Finnish Companies Act.

The accounting principles are unchanged compared to the previous year.

The preparation of the financial statements requires management, in compliance with the regulations in force and good accounting practice, to make estimates and assumptions that affect the measurement and timing of the reported information. Actual results may differ from these estimates.

Transactions denominated in foreign currencies

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

Research and development costs

Research and development costs are expensed in the financial period in which they occur.

Fixed assets and depreciation

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land also include revaluations.

Depreciation is based on the following useful lives:

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

Leasing

Lease payments are treated as rentals.

Extraordinary income and expenses

Extraordinary income and expenses consist of items, such as Group contributions, that fall outside the ordinary activities of the company.

Provisions

Provisions in the balance sheet comprise those items which the company is committed to covering either through agreements or otherwise, but which are not yet realized. Changes to provisions are included in the income statement.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, as well as adjustments to taxes in prior years. Taxes allocated to extraordinary items are shown in the notes to the financial statements.

Dividends

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

Notes to the Parent Company Financial Statements

1. Net sales by country

MEUR	2006	2005
Finland	2.7	1.6

2. Other operating income

MEUR	2006	2005
Rental income	2.1	1.8
Profit on sales of fixed assets	239.3	11.9
Other operating income	55.0	37.4
Total	296.4	51.2

3. Personnel expenses

MEUR	2006	2005
Wages and salaries	20.9	19.2
Pension costs	4.0	7.6
Other compulsory personnel costs	2.0	2.0
Total	27.0	28.8

Salaries and emoluments to senior management the President and CEO and members of the Board of Directors

	1.3	1.0
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The CEO and the members of the Board of Management have the right to retire at the age of 60 years.

The Company's Board of Directors decides the remunerations of the President and CEO and his immediate subordinates.

Personnel on average	268	251
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4. Depreciation and write-downs

MEUR	2006	2005
Depreciation according to plan		
Intangible assets	0.1	0.1
Other long-term expenditure	8.2	7.9
Buildings and structures	0.2	0.5
Machinery and equipment	1.0	1.2
Other tangible assets		
Total depreciation according to plan	9.5	9.6
Total book depreciation	12.0	9.3
Depreciation difference	-2.5	0.4
Adjustment of depreciation difference on sold fixed assets		0.7

Write-down of fixed assets

Depreciation difference on 1 January	2.5	2.9
Change in the depreciation difference	2.5	-0.4
Depreciation difference on 31 December	5.0	2.5

5. Financial income and expenses

MEUR	2006	2005
Dividend income		
from Group companies	154.9	0.1
from other companies	7.9	6.4
Total	162.8	6.5
Other interest income		
from Group companies	25.4	19.8
from other companies	1.7	1.1
Total	27.1	20.9
Other financial income		
from Group companies	15.4	0.6
from other companies	19.2	4.0
Total	34.6	4.6
Exchange gains and losses	12.2	-13.2
Interest expenses		
to Group companies	-7.1	-0.8
to other companies	-12.3	-11.1
Total	-19.4	-11.9
Other financial expenses		
to Group companies	-0.7	
to other companies	-23.4	-17.8
Total	-24.0	-17.8
Financial income and expenses, total	193.2	-10.9

6. Extraordinary income and expenses

MEUR	2006	2005
Group contributions	102.4	73.8

7. Income taxes

MEUR	2006	2005
Income taxes on operations for the financial year	-60.2	-1.4
for prior years	-0.7	0.0
Total	-60.9	-1.4
Income taxes on extraordinary items	26.6	19.2

8. Fixed assets

Intangible assets

MEUR	Intangible rights	Other long-term expenditure	Construction in progress	Total 2006	Total 2005
Acquisition cost at 1 January	0.9	66.2	7.9	74.5	64.2
Additions		5.2	6.2	11.4	10.3
Intra-balance sheet transfer		7.9	-7.9		
Acquisition cost at 31 December	0.9	79.3	6.2	85.9	74.5
Accumulated depreciation at 1 January	-0.5	-38.4		-38.5	-30.5
Depreciation during the financial year	-0.1	-8.2		-8.3	-8.0
Accumulated depreciation at 31 December	-0.6	-46.7		-46.8	-38.5
Book value at 31 December 2006	0.3	32.6	6.2	39.1	
Book value at 31 December 2005	0.4	27.7	7.9		36.0

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress	Other tangible assets	Total 2006	Total 2005
Acquisition cost at 1 January	9.9	12.2	11.5	2.3	1.6	37.4	50.7
Additions		0.4	0.0	2.1		2.6	2.6
Disposals	-1.7					-1.7	-15.9
Intra-balance sheet transfer	0.2	2.1		-2.3			
Acquisition cost at 31 December	8.4	14.7	11.6	2.1	1.6	38.3	37.4
Accumulated depreciation at 1 January		-10.9	-9.7		-0.8	-21.5	-27.7
Accumulated depreciation on disposals and transfers							7.9
Depreciation during the financial year		-0.2	-0.9			-1.1	-1.7
Accumulated depreciation at 31 December		-11.1	-10.6		-0.8	-22.6	-21.5
Book value at 31 December 2006	8.4	3.6	0.9	2.1	0.7	15.7	
Book value at 31 December 2005	9.9	1.2	1.8	2.3	0.7		16.0

Shares and securities

MEUR	Shares in Group companies	Receivables from Group companies	Shares in associated companies	Receivables from associated companies	Shares in other companies	Receivables from other companies	Total 2006	Total 2005
Acquisition cost at 1 January	449.7	3.1	69.8	1.5	36.5		560.7	570.5
Exchange rate differences				-0.1			-0.1	-0.7
Additions								70.6
Disposals		-0.7	-69.8	-0.4	-16.2		-87.1	-79.8
Acquisition cost at 31 December	449.7	2.4		1.0	20.3		473.5	560.7
Book value at 31 December 2006	449.7	2.4		1.0	20.3		473.5	
Book value at 31 December 2005	449.7	3.1	69.8	1.5	36.5			560.7

9. Specification of long-term receivables

MEUR	2006	2005
Receivables from Group companies		
Long-term investments	2.4	3.1
Loan receivables	35.6	20.5
Total	38.1	23.6
Receivables from associated companies		
Long-term investments	1.0	1.5
Loan receivables		21.2
Total	1.0	22.7

10. Specification of short-term receivables

MEUR	2006	2005
Receivables from Group companies		
Trade receivables	20.1	6.2
Loan receivables	1,017.0	659.6
Prepaid expenses and accrued income	6.7	10.7
Total	1,043.7	676.5
Receivables from associated companies		
Prepaid expenses and accrued income		0.7
Total		0.7

11. Main items in prepaid expenses and accrued income

MEUR	2006	2005
Interest	0.8	0.6
Other financial items	14.8	2.0
Income and other taxes		6.2
Other items	2.6	1.5
Total	18.2	10.3

12. Shareholders' equity

MEUR	2006	2005
Share capital		
Share capital on 1 January		
Series A	82.5	82.5
Series B	246.8	241.4
Total	329.4	323.9
Subscription based on warrants		
	5.1	5.4
Total	5.1	5.4
Share capital on 31 December		
Series A	82.5	82.5
Series B	251.9	246.8
Total	334.4	329.4
Share premium reserve		
Share premium reserve on 1 January		
	44.0	27.3
Issue premium	14.0	16.7
Share premium reserve on 31 December	58.0	44.0
Retained earnings		
Retained earnings on 1 January		
	451.9	530.8
Ordinary dividend distribution	-141.2	-41.6
Extra dividend distribution	-142.0	-41.6
Reversal of revaluation	-1.5	-2.8
Profit/loss for the year	418.6	7.3
Retained earnings on 31 December	585.8	451.9
Distributable equity		
Retained earnings on 31 December		
	585.8	451.9
Distributable equity	585.8	451.9
13. Provisions		
MEUR		
Other provisions	2.5	2.5
Provisions total	2.5	2.5

14. Liabilities

MEUR	2006	2005
Long-term		
Interest-bearing	174.4	198.0
Total	174.4	198.0
Current		
Non-interest-bearing	98.1	39.6
Interest-bearing	494.7	324.8
Total	592.8	364.5

Long-term debt with maturity profile

MEUR	Bank loans	Pension loans	Total
2007	7.1	16.4	23.5
2008	7.1	8.4	15.5
2009	42.8	4.2	47.0
2010	63.8		63.8
2011–	48.1		48.1
Total 31 December 2006	169.0	29.0	198.0
Total 31 December 2005	169.0	53.7	222.7

15. Main items in accrued expenses and deferred income

MEUR	2006	2005
Income and other taxes	47.3	0.2
Personnel costs	8.6	7.3
Interest and other financial items	4.4	19.9
Other	16.3	3.0
Total	76.6	30.3

16. Specification of current liabilities

MEUR	2006	2005
Liabilities to Group companies		
Trade payables	4.3	4.8
Other current liabilities	464.8	167.6
Total	469.1	172.4

17. Collateral, contingent liabilities and other commitments

MEUR	2006		2005	
	Balance sheet debt	Collateral	Balance sheet debt	Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	-	1.0	0.7	1.0
Total	-	1.0	0.7	1.0

Guarantees and contingent liabilities

on behalf of Group companies	356.4	376.3
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Nominal amounts of rents according to leasing contracts

Payable within one year	1.9	2.9
Payable after one year	6.6	4.7
Total	8.4	7.6

18. 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.

Proposal of the Board

The parent company's distributable funds total 585,774,572.84 euros, which includes 418,568,203.36 euros in net profit for the year. There are 95,554,352 shares with dividend rights.

The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

EUR	
A dividend of 1.75 euros per share be paid, making a total of	167,220,116.00
To be retained in shareholders' equity	418,554,456.84
Totalling	585,774,572.84

No significant changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good and in the opinion of the Board of Directors the proposed dividend will not put the company's solvency at risk.

Helsinki, Finland, 5 February 2007

Antti Lagerroos

Heikki Allonen

Jaakko Iloniemi

Matti Vuoria

Göran J. Ehrnrooth

Risto Hautamäki

Bertel Langenskiöld

Ole Johansson

President and CEO

Auditors' Report

To the shareholders of Wärtsilä Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Wärtsilä Corporation for the period January 1, 2006 – December 31, 2006. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and 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 is to examine whether the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position as defined in the Finnish Accounting Act.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

Opinion

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, 9 February 2007

KPMG OY AB
Mauri Palvi
Authorized Public Accountant

Quarterly Figures 2005–2006

Income statement, quarterly 2005–2006

MEUR	10–12/2006	7–9/2006	4–6/2006	1–3/2006	10–12/2005	7–9/2005	4–6/2005	1–3/2005
Net sales	985.9	766.8	845.0	591.9	773.5	607.8	686.8	570.7
Power Businesses	985.9	766.8	845.0	591.9	773.5	607.8	655.2	483.8
Imatra Steel							31.7	87.3
Operating result	99.2	56.3	70.2	35.9	86.1	43.5	48.4	46.4
Power Businesses	99.2	56.3	70.2	35.9	86.1	43.5	43.6	29.3
Imatra Steel							4.8	17.1
Financial income and expenses	-7.6	1.4	1.7	-2.6	-4.0	-9.9	-5.0	-4.5
Net income from assets available for sale			123.9			0.5		
Share of profit from associates	49.7	3.7	8.3	6.7	0.9	2.9	6.8	0.4
Profit before taxes	141.3	61.4	204.1	40.0	83.0	36.9	50.2	42.2
Power Businesses and Holdings	141.3	61.4	204.1	40.0	83.0	36.9	45.3	25.7
Imatra Steel							5.0	16.5
Earnings per share, EUR	1.13	0.44	1.60	0.55	0.75	0.32	0.40	0.33
Order intake	1,317.6	1,090.0	1,190.1	1,023.4	1,100.5	870.8	1,519.8	678.0
Order book, total	4,438.9	4,108.2	3,772.1	3,415.4	2,905.7	2,544.7	2,267.9	2,066.9
Personnel, at the end of period	14,346	13,986	12,918	12,605	12,008	11,589	11,378	12,322

Shares and Shareholders

Wärtsilä Corporation's shares are listed on the OMX Large Cap list of the Helsinki 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 329,374,906.00. 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 71,974,765 Series B shares making 95,554,352 shares in all.

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 for 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. Trading in the 2001 option rights began on the Helsinki Stock Exchange on 7 March 2005.

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 for 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 option rights began on the Helsinki Exchanges on 1 April 2004.

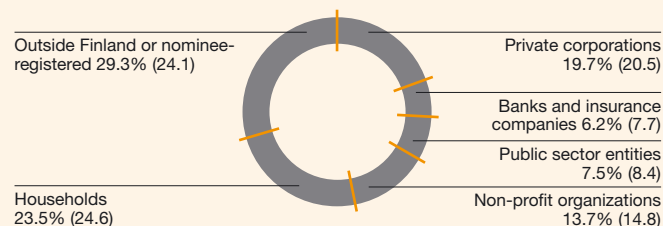
Under the terms and conditions of Wärtsilä's 2001 and 2002 option schemes, should the company increase its share capital with a bonus issue before the subscription of shares, the share subscription ratio shall be amended so that the ratio to the share capital of shares to be subscribed for by virtue of the options remains unchanged. Accordingly, in the bonus issue as decided by the Extraordinary General Meeting on 1 December 2004, the share subscription price was divided by 1.5 and two (2) options shall entitle their holder to subscribe for three (3) Wärtsilä B shares. As a consequence of the bonus issues and extra dividend the share subscription price of the 2001 options is 14.60 euros and the share subscription price of the 2002 options 7.40 euros.

During the subscription period 3,003,735 shares were subscribed based on the 2001 and 2002 option schemes, which corresponds to 3.2% of the share capital. A total of 446,265 shares have not been subscribed. This corresponds to 0.5% of the share capital.

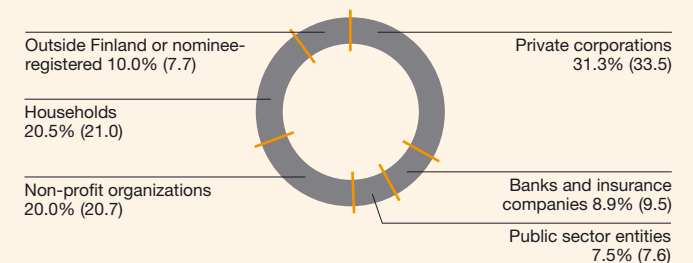
Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether

Ownership structure according to shares 31 December 2006



Ownership structure according to votes 31 December 2006



251,406 Wärtsilä Corporation shares, which represent 0.3% of the stock and 0.3% of the voting rights.

Under the 2002 option scheme issue the CEO and his deputy held altogether 58,000 options on 31 December 2006, entitling them to subscribe for at most 87,000 shares, or 0.09% of the current total number of shares and 0.03% of the voting rights.

Shareholders

Wärtsilä has approximately 26,000 shareholders. At the end of the period approx. 29% of the capital was held by foreign shareholders. At the end of 2005 the corresponding figure was 24%. Approximately 24% of the shares was held by domestic retail investors.

Flagging notices

During 2006 Wärtsilä has not been notified of any changes in holdings in accordance with the Finnish Securities Act chapter 2 paragraph 9.

Authorizations

The Annual General Meeting held on 15 March 2006 authorized the Board for one year to repurchase and dispose of the Company's own Series A and B shares in proportion to the total number of shares in each series provided that the total nominal value of the shares so purchased, and the votes carried by these shares, shall not exceed ten per cent (10%) of the company's total share capital and voting rights. This authorization was not exercised during the reporting period.

Board's proposals to the Annual General Meeting

The Board of Directors proposes to the Annual General meeting on 14 March 2007 that a dividend of 1.75 euros per share be distributed on the financial year ended 31 December 2006.

Dilutive effect of the option schemes

	Series B	Number of shares %	Share capital EUR	Votes %	Price, EUR	Subscription period
Option scheme (2001)	191,226	0.2	669,291	0.06	14.60	1 April 2003-31 March 2007 ¹
Option scheme (2002)	255,639	0.3	892,636	0.08	7.40	1 April 2003-31 March 2008 ¹
Total	446,265	0.5	1,561,927	0.14		

Number of Wärtsilä shares 96,000,617 and number of votes 308,216,900, if subscription rights are exercised.

¹Subscription period annually between 2 Jan. -30 Nov.

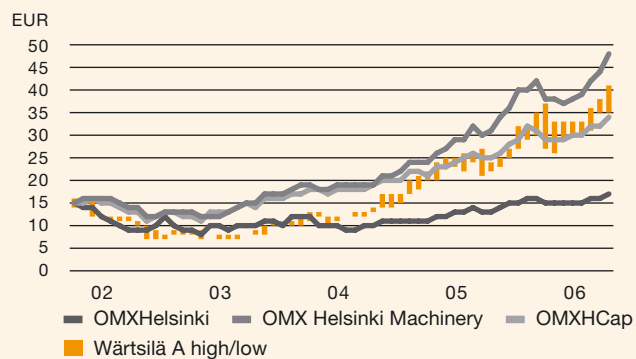
Change in share capital

	Shares	%	Votes	Series A %	Shares	%	Votes	Serie B %	Shares	Total Votes
Shares and votes 31 Dec. 2005	23,579,587	25.1	235,795,870	77.0	70,527,529	74.9	70,527,529	23.0	94,107,116	306,323,399
Options subscribed	-	-	-	-	1,447,236	-	1,447,236	-	1,447,236	1,447,236
Total 31 Dec. 2006	23,579,587	24.7	235,795,870	76.6	71,974,765	75.3	71,974,765	23.4	95,554,352	307,770,635

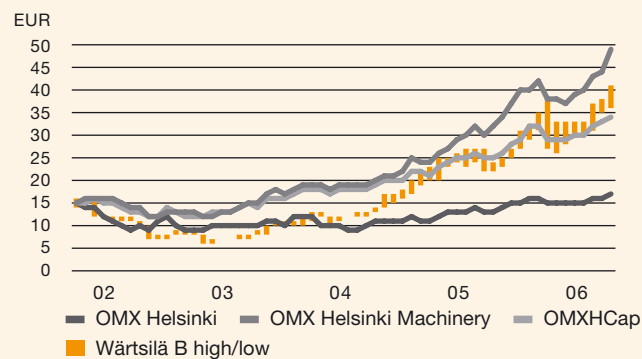
Share information

	Series A	Series B
Share codes		
Helsinki Exchange	WRTAV	WRTBV
Reuters	WRTAV.HE	WRTBV.HE
Bloomberg	WRTAV.FHI	WRTBV.FH
Votes/share	10	1
Number of shares	23,579,587	71,974,765

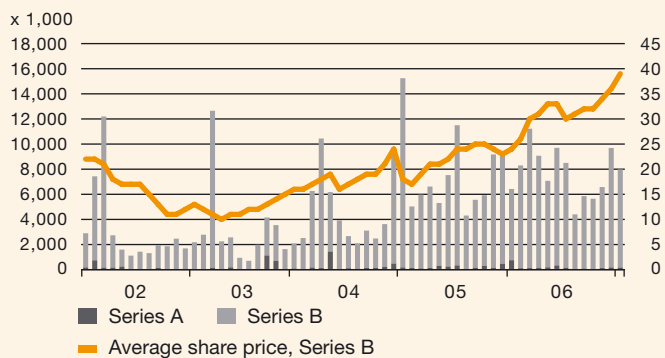
Series A quotations 2002–2006



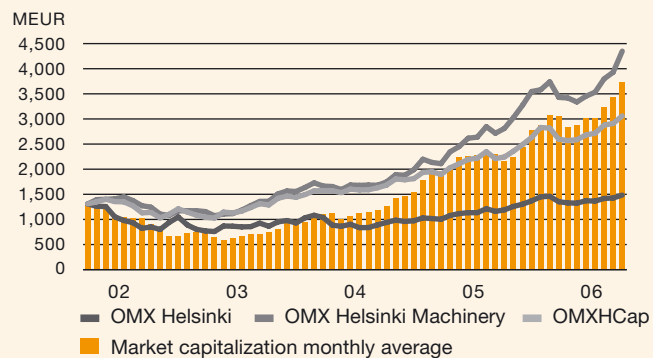
Series B quotations 2002–2006



Traded shares/month 2002–2006



Market capitalization 2002–2006



The Wärtsilä shares on the Helsinki Stock Exchange

MEUR		2006	2005	2004	2003	2002
Trading volume	MEUR					
Series A		55.6	72.2	41.6	21.0	24.5
Series B		2,963.2	1,796.6	860.0	275.9	457.7
Total		3,018.8	1,868.8	901.6	296.9	482.2
Number of traded	x 1,000					
Series A		1,716	3,160	2,180	2,508	1,890
Series B		92,322	79,635	45,527	35,001	36,805
Total		94,038	82,795	47,707	37,509	38,695
Stock turnover	%					
Series A		7.2	13.4	9.2	10.8	8.2
Series B		128.2	112.9	66.0	52.8	55.7
Total		98.4	88.0	51.5	41.9	43.4
Average share price	EUR					
Series A		32.52	22.73	13.03	8.37	12.95
Series B		32.07	22.46	13.60	7.89	12.43
Trading low/high	EUR					
Series A	low	24.60	15.31	10.17	6.67	7.21
	high	40.99	26.70	17.32	10.87	15.67
Series B	low	24.80	15.68	9.97	6.13	6.97
	high	41.20	27.09	17.48	10.63	15.67
Share price at the year-end	EUR					
Series A		40.75	24.84	15.24	10.17	8.52
Series B		40.81	25.00	15.68	10.13	8.01
Year-end market capitalization	MEUR	3,898	2,349.0	1,440.8	907.0	727.0

Key figures for Wärtsilä shares

MEUR		2006	2005	IFRS 2004	FAS 2004	2003	2002
Earnings per share (EPS)	EUR	3.72	1.80	1.42	1.75	-0.44	1.37
Book value of equity per share	EUR	12.74	12.25	9.65	9.22	8.69	10.37
Dividend per share	EUR	1.75 ¹	3.00 ²	0.90	0.90	0.50	1.17
Dividend per earnings	%	47.0 ¹	166.7 ²	63.4	51.4	n/a	85.4
Dividend yield	%						
Series A		4.29 ¹	12.08 ²	5.91	5.91	4.92	13.69
Series B		4.29 ¹	12.00 ²	5.74	5.74	4.93	14.56
Price per earnings (P/E)							
Series A		11.0	13.8	10.7	8.7	n/a	6.2
Series B		11.0	13.9	11.0	9.0	n/a	5.9
Price to book-value (P/BV)							
Series A		3.2	2.0	1.6	1.7	1.2	0.8
Series B		3.2	2.0	1.6	1.7	1.2	0.8
Adjusted number of shares	x 1,000						
end of financial year		95,554	94,107	91,341	91,341	89,475	89,204
on average		94,429	93,010	92,551	92,551	89,341	89,181

¹Proposal of the Board of Directors. ²Financial ratios calculated from total amount of dividend.

Wärtsilä on the Capital Markets 2006

Wärtsilä's shares are listed on the OMX Large Cap list on the Helsinki Stock Exchange. The company has two share series of which the trading codes are WRTAV for the Series A shares and WRTBV for the Series B shares. The A shares carry ten (10) votes per share and the B shares carry one (1) vote per share at general meetings. All shares carry equal dividend rights.

Wärtsilä's shares in 2006

The price of the B share rose from EUR 25.00 on 1 January 2006 to EUR 40.81 at the end of December the same year, corresponding to growth of 63%. The highest quotation for the B share during 2006 was EUR 41.20 and the lowest 24.80. The price of the A share rose from EUR 24.86 on 1 January 2006 to EUR 40.75 at the end of December the same year, corresponding to growth of appr. 64%. The highest quotation for the A share during 2006 was EUR 40.99 and the lowest 24.60. The trading volume of the B shares was approximately 92 million shares corresponding to a turnover of EUR 2,963 (1,869) million and the trading volume of the A share 1.7 million shares corresponding to a turnover of EUR 55.7 (72.2) million.

Shareholders

Wärtsilä has approx. 26,000 shareholders. At the end of the year 2006 approx. 29% of the shares were held by foreigners compared to 24% at the end of 2005. Domestic retail investors held approx. 24%.

Wärtsilä's Investor Relations policy

The ultimate objective of Wärtsilä's Investor Relations is to produce accurate, sufficient and up-to-date information about the development of Wärtsilä's business operations, strategy, markets and financial position ensure that the capital markets have relevant information about the company and its shares in order to determine the fair value of Wärtsilä's shares.

To reach this objective Wärtsilä annually publishes three interim reports, a financial statement bulletin, an annual report and stock exchange releases. Furthermore, Wärtsilä management conducts regular discussions with analysts and investors both in Finland and abroad. The web pages serve as an archive for all current and historical data about factors affecting the value of our shares.

Prospects

Information on Wärtsilä's prospects and result forecast is published in the Financial Statements Bulletin for the financial year (and repeated also in the Annual Report) and in the interim reports. The prospects are approved by the Board of Directors. Wärtsilä does not publish quarterly result forecasts.

Market estimates

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

Silent period

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

Investor Relations activities in 2006

During 2006 Wärtsilä representatives conducted more than 100 investor meetings. Roadshows were conducted to London, Edinburgh, Frankfurt, Amsterdam, Paris, Stockholm, Copenhagen, New York and Boston. In addition to this several analyst and investor groups visited Wärtsilä units in China and India. Wärtsilä representatives also participated in several investor conferences in Europe during 2006. The company's 2006 capital markets day was held in Helsinki in June. In November Wärtsilä participated in the SIJOITUS-INVEST fair in Helsinki targeted at retail investors.

Communications policy and financial communication

Wärtsilä discloses information on its goals, financial position and business operations in an open, timely, truthful and systematic manner to enable stakeholders to form a true and fair view of the company.

Wärtsilä's communications activities comprise internal and external corporate communications and investor relations.

Wärtsilä publishes stock exchange releases and stock exchange announcements, general press releases and trade

press releases. Wärtsilä's subsidiaries publish press releases with local relevance.

Stock exchange releases give information on news that could affect the share price. Stock exchange announcements are releases of a technical nature. Press releases provide information on business-related news or other news of general interest to Wärtsilä stakeholders. Releases to the trade press provide more detailed information on Wärtsilä's products and technology.

All 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 wartsila.com immediately after they are published.

Contacts

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

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Investor Relations Manager
Tel. +358 10 709 5216
GSM +358 400 784 889
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Wärtsilä's corporate communications and media relations are the responsibility of Ms Eeva Kainulainen.

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Vice President, Corporate Communications & IR
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GSM +358 40 568 0591
E-mail: eeva.kainulainen@wartsila.com

Analysts

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

Alfred Berg ABN AMRO	Mr Jan Brännback	+358 9 228 321	jan.brannback@alfredberg.fi
CA Cheuvreux	Mr Patrik Sjöblom	+46 8 723 5115	psjoblom@cheuvreux.com
Carnegie Investment Bank AB, Finland Branch	Mr Miikka Kinnunen	+358 9 618 711	miikka.kinnunen@carnegie.fi
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FIM Securities Ltd	Mr Lauri Saarela	+358 9 6134 6307	lauri.saarela@fim.com
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Mandatum Securities Ltd	Mr Antti Suttelin	+358 10 236 4708	antti.suttelin@mandatum.fi
OKO Pankki	Mr Sampo Brisk	+358 10 252 4504	sampo.brisk@okobank.com

Annual summary of stock exchange releases

24.11.2006	Wärtsilä's extraordinary general meeting approves payment of extra 1.50 euro dividend
20.11.2006	Wärtsilä: Closure of Ovako sale
10.11.2006	Wärtsilä: The sale of Ovako received relevant regulatory approvals
31.10.2006	Interim report January–September 2006
31.10.2006	Wärtsilä Board of Directors to propose an extra dividend of 1.50 euro to the extraordinary general meeting to be held on November 24, 2006
16.10.2006	Wärtsilä has been selected to supply another large Wärtsilä power plant to Azerbaijan
06.10.2006	Update on sale process of Oy Ovako Ab
27.09.2006	Wärtsilä, China Shipbuilding Industry Corporation and Mitsubishi Heavy Industries in joint manufacturing of low-speed engines in China
04.08.2006	Interim report January–June 2006
17.07.2006	Wärtsilä, SKF and Rautaruukki to sell Ovako
05.07.2006	Wärtsilä's subsidiary and employee not guilty
30.06.2006	Wärtsilä's acquisition of Total Automation in Singapore closed
21.06.2006	Exceptionally high demand from LNG carrier and offshore markets for Wärtsilä
16.06.2006	Wärtsilä's order intake rose by 39% in April–May – Net sales for 2007 estimated to grow by 10–15%
22.05.2006	Wärtsilä's acquisition in Singapore approved by Total Automation's shareholders
12.05.2006	Wärtsilä sold 10 million shares in Assa Abloy
04.05.2006	Wärtsilä increases assembly and testing capacity in Vaasa and Trieste
04.05.2006	Interim report January–March 2006
10.04.2006	Wärtsilä selected to deliver a large gas power plant in California
15.03.2006	Order intake in January–February 40% higher than in same period last year; profitability forecast for current year unchanged
15.03.2006	Constitutive meeting of the Board of Directors of Wärtsilä Corporation
15.03.2006	Wärtsilä's Annual General Meeting 15 March 2006
13.03.2006	Rautaruukki, SKF and Wärtsilä explore strategic options for their ownership in Ovako
01.03.2006	Invitation to Annual General Meeting of Wärtsilä Corporation to be held on March 15, 2006
10.02.2006	Wärtsilä acquires business of Singaporean Total Automation Ltd
09.02.2006	Appointments to Wärtsilä's Board Of Management
07.02.2006	Financial Statements Bulletin
03.02.2006	Wärtsilä acquires Power and Automation Systems company from Aker Kvaerner

The stock exchange releases and press releases are available on www.wartsila.com immediately after they are published.

Sustainability

Every third ship sailing the oceans runs on Wärtsilä power

Sustainable development requires continuous investment in technology development and the search for new solutions. For Wärtsilä, the principal aspect of sustainable development is ensuring that the company's products are environmentally sound. Key features of these products are their reliability, long lifetime, high efficiency and low emission levels.



Wärtsilä and sustainability

Wärtsilä's mission, vision and strategy, along with its sustainable development objectives, create the framework for developing the company's activities and products. They are supplemented by Wärtsilä's management system, a tool for continuous improvement of the company's operations and products. Wärtsilä harmonizes its operations worldwide through its global environment, quality and occupational health and safety policy and the company's operating principles (Code of Conduct). The Corporate Manual includes, in addition to the above, a description of the company's operating procedures, responsibilities and the management system structure. Wärtsilä's governance and risk management principles are described in the Business Review of this report.

Wärtsilä's sustainable development is based on three closely interrelated pillars: economic, environmental and social performance. Responsible conduct is an integral part of Wärtsilä's business processes.

Economic responsibility

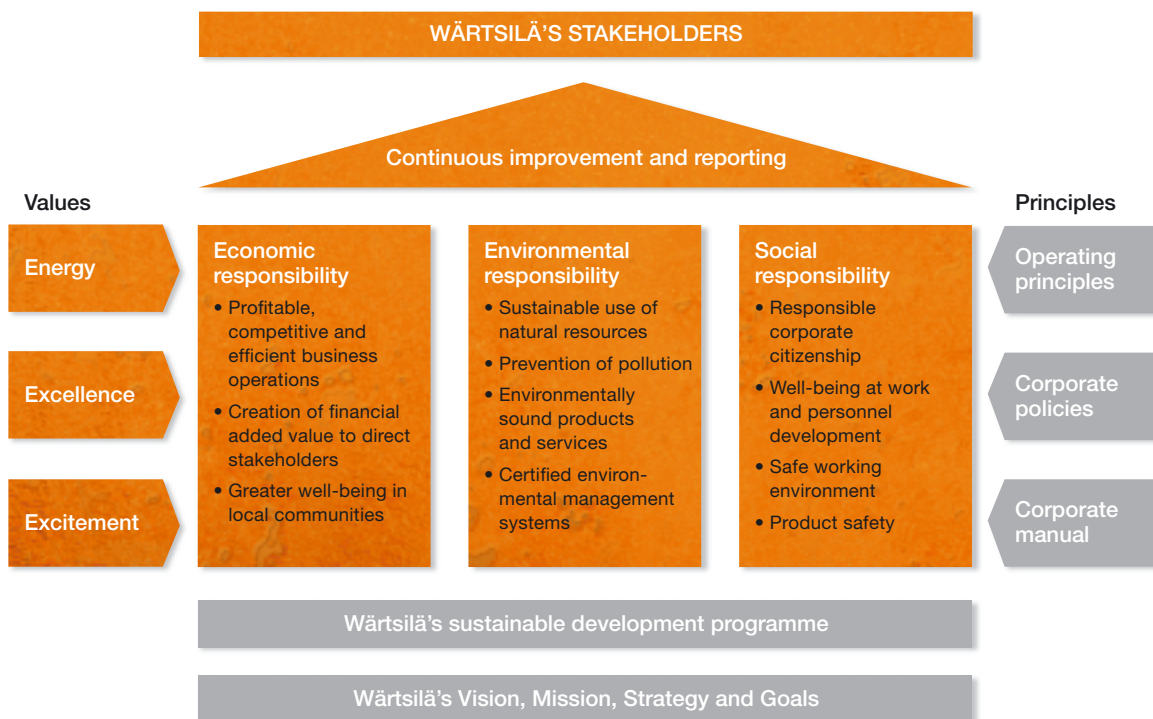
Economic performance involves meeting the expectations of shareholders and contributing towards the well-being of society. This requires the company's operations to be profitable and competitive. Economic performance, besides creating economic added value direct to the company's stakeholders, also calls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

Environmental responsibility

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

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

Wärtsilä continuously develops and improves its operations with the help of certified environmental systems. Wärtsilä's environmental systems cover all the operations of its subsidiaries, which means that the Group is able to promote environmental protection and reduce negative impacts on a wide front. Wärtsilä has not set targets for operational environmental aspects at the corporate level because the activities of its subsidiaries vary widely. Nonetheless, achieving energy efficiency and reducing emissions are central goals for all Wärtsilä companies and factories.



Social responsibility

Social performance involves following good practices and procedures in stakeholder relations. This requires continuous co-operation with suppliers, partners and local organizations. The Code of Conduct sets the boundaries for Wäartsilä's business operations and their development in line with the Group's strategy. Other important aspects of good social performance are creating a safe working environment and operating procedures, ensuring the well-being of the company's employees and the development of personal skills and competencies. These aspects maintain the ability of the employees to do their work, as well as raise efficiency and improve Wäartsilä's position as a desirable employer. Product safety means responsibility towards the company's customers and its own personnel. Alongside compliance with safety requirements, essential aspects of product safety also include product support and training. Promoting good social performance requires seamless collaboration throughout the Group network.

Voluntary commitments

In addition to complying with the corporate principles the subsidiary Wäartsilä Finland Oy applies an agreement signed in 1998 whereby Finnish industry voluntarily endeavours to use energy more efficiently. Wäartsilä North America Inc. has joined the Customs Trade Partnership Against Terrorism (C-TPAT) agreement signed in 2003.

Wäartsilä's management system

Wäartsilä's management system aims to generate added value for Wäartsilä's various stakeholders, achieve the company's strategic objectives, manage operating risks, and enhance Wäartsilä's performance through the continuous improvement process. The system includes a range of tools, such as systems for managing quality, the company's environmental responsibilities, and occupational health and safety. Management reviews are conducted at various levels of the organization to monitor the effectiveness of the system, the achievement of targets and the development of key performance indicators.

Wäartsilä's Board of Management is responsible for defining the company's main strategies, principles and policies and for the management system itself. The Board of Management regularly monitors the effectiveness and performance of the management system. Responsibilities are distributed to the line organization at all levels of the company and the management system defines a specific sphere of responsibility for each Wäartsilä

Wäartsilä Policy for Quality, Health & Safety and the Environment

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

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

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

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

Our skilled organization acts as a responsible global citizen.

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

employee. Work groups for developing the management system are appointed at the corporate level and in most Wäartsilä subsidiaries.

Management systems

	Environment ISO 14001	Quality ISO 9001
Proportion of Wäartsilä companies with certification	62%	82%

A further 23 companies have OHSAS 18001 certification.

Product liability

Wäartsilä endeavours to develop environmentally sound, reliable and safe products. Wäartsilä supports its customers throughout the entire service lives of Wäartsilä products by developing environmentally sound solutions, and also offering these solutions for use with products that are already in operation. Engine and component reconditioning lengthens the service life of products, while modernizing engines can improve the performance of power plants to the level where they meet both existing and future requirements.

Code of Conduct in brief

1. Compliance with the law

In all its countries of operation Wäartsilä complies with the laws and statutes of the country in question, and the requirements of good corporate citizenship.

2. Openness

The company promotes openness and transparency in its operations and aims for continuous and open dialogue with its stakeholders.

3. Respect for human rights

Wäartsilä's principles include respect for international human rights treaties and the promotion of equal rights. Wäartsilä respects the right of its employees to freedom of association and does not accept forced labour or child labour.

4. Conflicts of interest

Wäartsilä expects loyalty from its employees. Wäartsilä does not accept the giving or receiving of bribes.

5. The environment

In its R&D, manufacturing and other activities Wäartsilä aims to produce environmentally sound products and services. In manufacturing, new technology is used that supports sustainable development.

6. Occupational health and safety

Wäartsilä strives to offer its employees an interesting working environment applying high standards of occupational health and safety.

7. Suppliers

Wäartsilä expects its suppliers to comply with the same high standards regarding legal, ethical, environmental and personnel management issues as Wäartsilä itself applies. The company also helps its suppliers in this task.

8. Implementation

Wäartsilä works actively to ensure that its code of conduct is fully implemented. The company employs a number of methods to assess its implementation.

The full Code of Conduct can be found on the company's internet website at www.wartsila.com.

Wärtsilä's engines are designed to meet the requirements of the European Commission's Machinery Directive, the SOLAS Convention, and other relevant safety directives, while Wärtsilä's propulsion systems are designed to comply with SOLAS and the safety requirements of other relevant classification bodies. Boiler plants are designed to fulfil the requirements of the Machinery Directive and other pertinent directives such as the PED, ASME and CE safety requirements, in line with national requirements. New types of engines and boiler plants must also meet international safety requirements. Type approval is acquired from classification societies before new products are launched. Wärtsilä's products are delivered with appropriate user guides that include basic information about the products and full instructions for their use.

Supply chain management

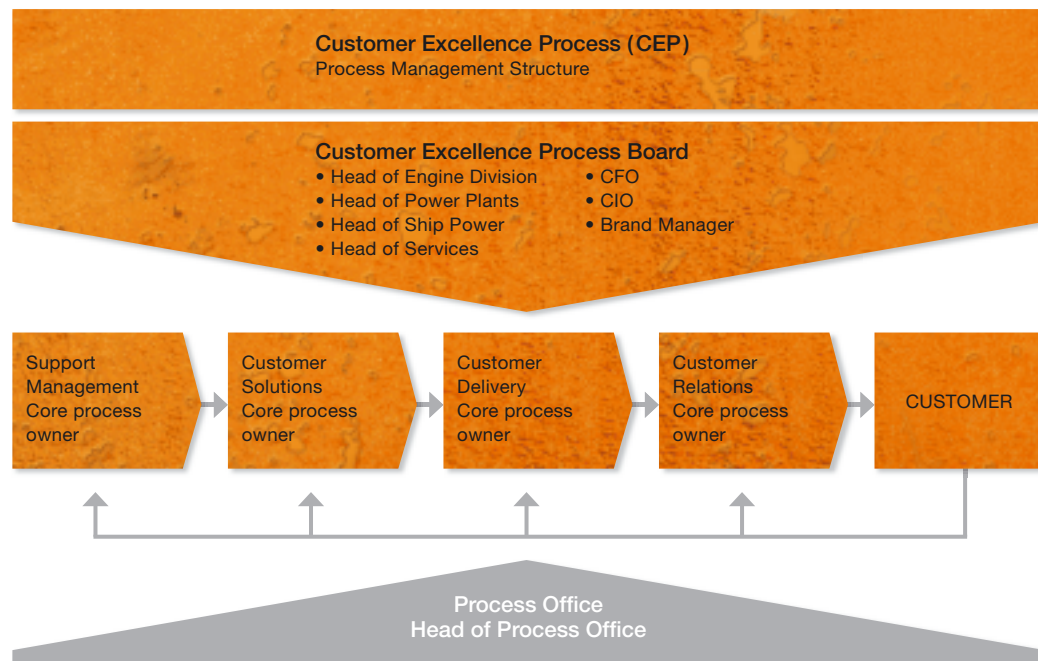
Wärtsilä's supplier requirements address both general aspects and issues relating to quality, specific products, environmental management, occupational health and safety and social responsibility. Wärtsilä regularly controls that suppliers comply with these requirements using performance indicators and audits. Suppliers must demonstrate compliance with these requirements in order to receive approved supplier status. The main priorities in Wärtsilä's supplier evaluations are supplier selection, conformance with requirements and performance reviews.

Stakeholder relations

Wärtsilä's aims to engage in open and constructive dialogue with its various stakeholders. Wärtsilä actively maintains relations with its stakeholders, developing its activities, products and services based on the feedback it receives from them. At the corporate level the company has defined its most important stakeholders to be its customers, owners, suppliers, employees and society. Wärtsilä's subsidiaries define their own primary stakeholders which, in addition to the above, include local residents close to production plants, as well as universities and public authorities. Priorities vary from one company to another. Wärtsilä is continuously enhancing its reporting performance both on its own initiative and in response to feedback from its stakeholders.

Business Process Management

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



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

Channels of dialogue and assessments of stakeholder relations

Stakeholder	Channels of dialogue	Assessments
Customers	Regular contact with customers, lifecycle support for products, customer events and seminars, customer magazines, conferences and exhibitions, product documentation, customer feedback system	System for measuring customer satisfaction and quality
Employees	Open and continuous communication between management and employees, annual development discussions, information meetings and internal communication (intranet), training events, national statutory employee bodies and European Works Council, suggestions system, continuous improvement process (CIP), Technology Award, Quality Award	Employee satisfaction surveys
Owners, investors	Management meetings with investors, financiers and analysts, investor magazines, general meetings, information meetings, stock exchange and press releases, annual and interim reports, capital markets days, the internet, investor relations surveys	Investor relations surveys
Suppliers	Open and active dialogue between the sourcing organization and suppliers, supplier management system, Supplier of the Year Award	Supplier assessments
Society	Reporting to, and co-operation with, public officials on issues such as the environment and occupational health & safety, Open Doors days, sustainable development reports, corporate presentations, local communications, the internet	Stakeholder feedback, corporate image surveys
Organizations	Membership, regular contact, participation in activities of local trade and industrial organizations, active role in working groups, contact with various public bodies, e.g. through ministries, reports	
Universities	Opportunities for practical training and degree theses, R&D projects, participation in recruitment fairs and seminars, sponsorship of student activities	Preferred employer surveys
The media	National and international business media and journals, trade publications, interviews and press releases, main annual publications, meetings, visits, factory tours	Surveys conducted among business journalists, media surveys, reporting comparisons

Wärtsilä participates in the activities of the following organizations:

Stakeholder	Organization	Nature of activity
Interest groups (Finland)	Confederation of Finnish Industries EK, Chambers of Commerce, Technology Industries of Finland	Active membership Chairmanship
Industrial and trade organizations	European Association of Combustion Engine Manufacturers (Euromot), Cogen Europe, VDMA and SCSMI	Participation in activities
Standardization organizations	European Committee for Standardization CEN, International Organization for Standardization ISO	Participation in activities
International organizations	International Maritime Organization IMO International Council on Combustion Engines CIMAC	Participation in activities Chairmanship and participation in activities
Other	World Alliance for Decentralized Energy WADE European Federation for Quality Management EFQM	Chairmanship and participation in activities Participation in activities

Economic performance

Economic performance involves meeting the expectations of shareholders and contributing towards the well-being of society. This requires that the company's operations are efficient, profitable and competitive. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

Creating economic added value

Wärtsilä's purpose is to create value for its various stakeholders. The focus is on profitability and raising shareholder value. Achieving this depends on Wärtsilä's ability to satisfy the expectations of its other stakeholders as well. This includes providing customers with high-quality and environmentally sound products, solutions and services, building long-term partnerships with suppliers, offering employees competitive compensation and working conditions, and contributing to the well-being of the local communities in which Wärtsilä operates.

Customers

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

Wärtsilä's net sales totalled EUR 3,189.6 million in 2006. Europe contributed 39%, Asia 36%, the Americas 18% and Africa 6% to Wärtsilä's overall net sales.

Suppliers

Suppliers play a significant role in Wärtsilä's delivery process. Wärtsilä aims to deepen the partnerships with its suppliers in order to ensure that both parties mutually understand, and are able to respond to, Wärtsilä's strict process and product requirements. Apart from financial benefits, partnerships create added value for suppliers through the knowledge and development support Wärtsilä offers them. Successful partnership can also assist a local supplier in expanding internationally by becoming a part of Wärtsilä's global supply chain.

In 2006 the value of goods, materials and services purchased by Wärtsilä was EUR 2,035 million. Wärtsilä has more than 3,700 active suppliers, most of whom are located in Europe where Wärtsilä has its main production units. Wärtsilä also has a significant number of suppliers in Asia.

Employees

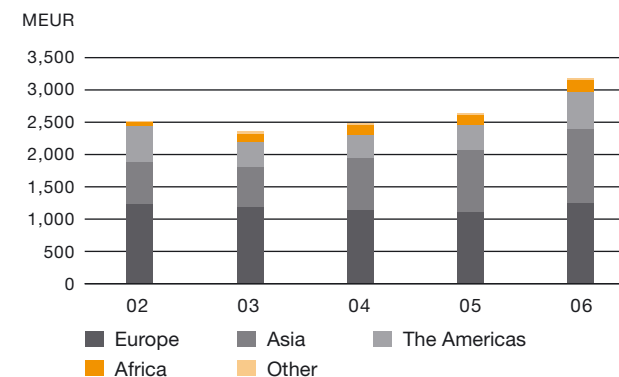
At the end of 2006 Wärtsilä had 14,346 employees worldwide. Wärtsilä also employed thousands of people indirectly through its supply chain. In order to be able to recruit competent and motivated people, Wärtsilä endeavours to offer employees competitive salaries, opportunities for continuous personal development and a good working environment. Developing employee skills and competences is of critical importance both for Wärtsilä's business performance and for the development of the company's employees.

Salaries totalled EUR 510.9 million in 2006. This figure includes basic salaries as well as payments based on various incentive schemes, which cover some 53% of the total workforce.

Added value distributed to Wärtsilä's shareholders

MEUR		2006	2005	IFRS 2004	2003	2002
Customers	Net sales	3,189.6	2,638.8	2,478.2	2,357.5	2,519.0
Suppliers	Cost of goods, materials and services purchased	-2,034.6	-1,791.4	-1,639.6	-1,666.4	-1,676.7
	Value-added	1,155.0	847.4	838.5	691.1	842.3
	Distributed to stakeholders					
Distribution of value-added						
Employees	Wages and salaries	510.9	434.3	456.6	447.7	434.2
Public sector	Taxes and social dues	212.5	149.7	183.9	110.8	162.2
Creditors	Interest on debt and borrowings	7.1	23.4	3.7	15.9	18.5
Shareholders	Dividends	167.2	283.2	83.3	106.4	104.1
For business development		257.3	-43.2	111.0	10.3	123.2

Net sales by market area



Public sector

Wärtsilä pays various social dues and taxes to the governments of different countries. Income taxes and social dues in the financial period 2006 were EUR 212.5 million. The social costs for employees contribute to the funding of pensions, unemployment and other social benefits that provide security and improve the quality of life for the company's employees and their families.

Wärtsilä companies also receive subsidies from the public sector. The value of the subsidies received in 2006 was EUR 6.9 million and they were mainly related to R&D projects.

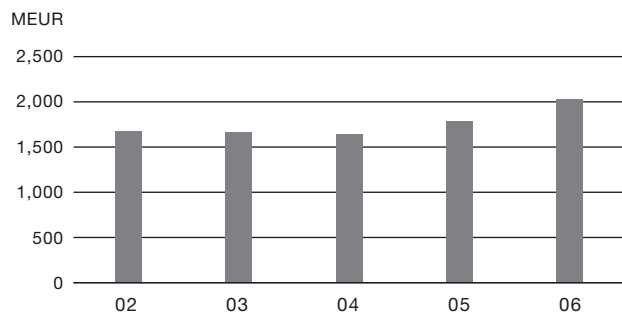
Creditors

In 2006 Wärtsilä's net financial items totalled EUR 7.1 million. At the end of the year Wärtsilä's net debt amounted to EUR 54.7 million, the solvency ratio was 47% and gearing was 0.07.

Shareholders

Dividends totalling EUR 167.2 million were paid to the company's shareholders. Wärtsilä's dividend policy is to pay a dividend equivalent to 50% of its operational earnings per share. In recent years the company has distributed an extra dividend which is partly based on the sale of certain non-core business interests. The dividends paid per share are presented in notes to the financial statements. Wärtsilä paid a total dividend of EUR 3.72 euros per share and its market capitalization at the end of 2006 was EUR 3,898 million.

Cost of all goods, materials and services purchased



Community support

At the national level, Wärtsilä provides financial support for a number of national, cultural and social activities. The Board of Directors has supported activities focused on children and young people, national defence, disabled war veterans, and medical and technical research. Wärtsilä's Board of Directors contributed altogether EUR 70,000 to these activities in 2006.

Donations to good causes by the Board of Directors

TEUR	2006	2005	2004	2003
Total	70	70	77	55

At the local level, Wärtsilä has provided financial support to cultural, educational, sports and other activities as shown in the table below.

Donations to local organizations¹

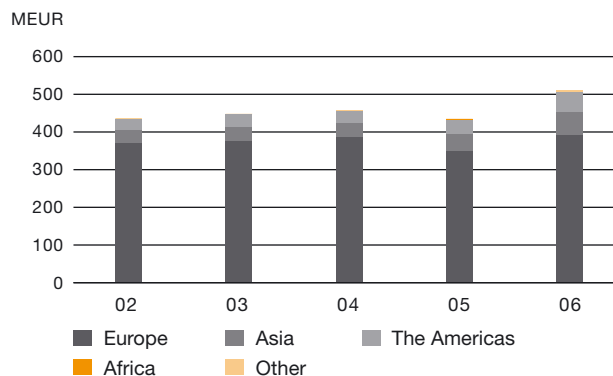
TEUR	2006	2005	2004	2003
Total	614.1	343.5	385.0	306.8

¹ The 2002–2003 figures include the data from 10 major Wärtsilä companies and the 2004–2006 figures from 12 major Wärtsilä companies.

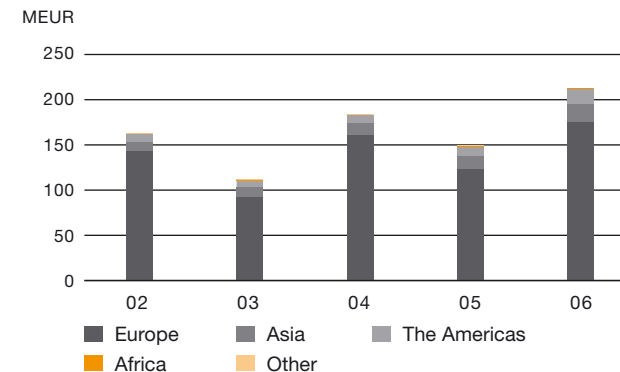
Wärtsilä in sustainable development indexes

Wärtsilä has been admitted to the Kempen/SNS Smaller Europe SRI index and the Ethibel Investment Register and the Ethibel Pioneer Sustainability Index.

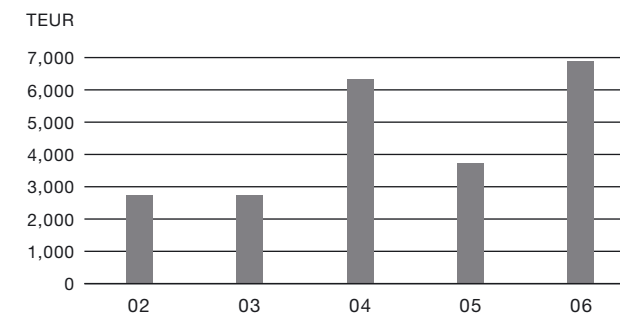
Salaries & wages by market area



Taxes and social costs by market area

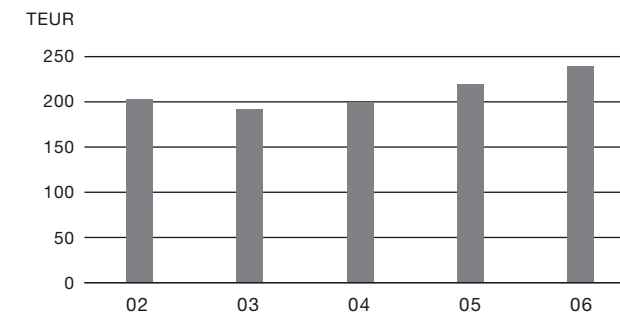


Subsidies received from the public sector¹



¹ The 2002–2003 figures include the data from 10 major Wärtsilä companies and the 2004–2006 figures from 12 major Wärtsilä companies.

Net sales/employee



Products, research & development and the environment

Technology plays a central role in efforts to reduce climate change and prevent pollution. Wärtsilä gives heavy priority to developing and applying technology with the aim of reducing the environmental impacts of its products. For the company to meet its customers' needs, be prepared for future requirements and remain a frontrunner in the industry, Wärtsilä's product development must be continuously innovative, determined and willing to explore new technologies.

Wärtsilä's product development endeavours to increase the service life of the products, improve their reliability and make them more environmentally sound. Investing in product development benefits Wärtsilä's customers as well as the environment, both in the short-term and over a longer time span. Growth in the world's energy needs combined with increasingly stringent environmental requirements creates a challenging operating climate for companies in Wärtsilä's line of business. Wärtsilä has responded to these challenges by improving the energy efficiency of its products while simultaneously reducing their emissions.

The drivers of sustainable development

From the viewpoint of sustainable development, the main themes for developing the business environment are new legislation, the availability and price of natural resources – especially fossil fuels – climate change, and a general change in attitude. Solutions to the challenges of sustainable development for their part are largely influenced by technological development and the ability to apply new technology.

International legislation and initiatives

In Wärtsilä's business, environmental pollution is regulated at the international level mainly by the IMO (International Maritime

Organization) and the World Bank. Other important environmental restrictions on Wärtsilä's products are the US EPA and the German TA-Luft regulations often applied to gas engine plants and the emission limits on diesel engines set by India and Japan. Wärtsilä's products comply with the requirements of these institutions.

Reducing greenhouse gases will have a significant impact on the power generation business. Wärtsilä supplies decentralized solutions for power generation that provide high efficiency with relatively low carbon dioxide emissions. The modularity of Wärtsilä's solutions enables customers to optimize the plant size, while Wärtsilä's multifuel solutions help them switch flexibly to cleaner fuels whenever necessary. Another method of reducing greenhouse gases is to build more combined heat and power (CHP) plants as their big advantage is efficient energy consumption.

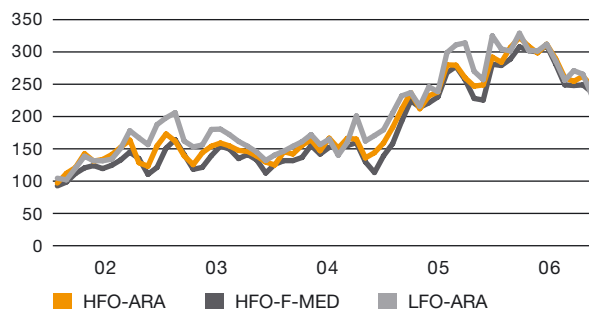
Wärtsilä actively monitors legislative initiatives and changes in environmental legislation to ensure the company's ability to respond appropriately to the operating conditions of the future. Wärtsilä's R&D takes into account the requirements of the changing operating environment and develops products that give the company a competitive edge.

Fossil fuels and climate changes

There will be little significant change in the usage of fossil fuels during the coming two decades. However, declining reserves, the lack of sufficient production and refining capacity and growing demand have all been pushing up the price of oil in recent years, spurring increasing interest in alternative fuels.

Prices of fuel oils

US\$/tonnes



Source: Reuters

The use of natural gas is growing owing to improved supplies and its environmental advantages. In the past, natural gas has been used by onshore power plants, but today marine vessels are making increasing use of liquefied natural gas (LNG) for fuel. International climate agreements, likewise, are boosting the use of natural gas significantly. When using natural gas carbon dioxide emissions are 25% lower than in the case of oil and 40% lower than for coal. An even more effective way to reduce carbon dioxide emissions is to adopt renewable energy sources such as biofuels.

R&D principles and most important R&D programmes

Wärtsilä applies new technologies that cross traditional scientific disciplines and conventional industrial boundaries to solve product development tasks, thus producing added value for its customers. Wärtsilä's R&D organization creates the basic elements that make a product both desirable and competitive. Wärtsilä's R&D activities focus on products and applications that are reliable, self-diagnostic, cost-efficient to operate and produce minimal environmental impacts throughout their lifecycles. The company takes a proactive approach to managing its intellectual and industrial rights through incentive schemes for its employees that encourage innovation and initiative. A paramount priority in Wärtsilä's R&D activities is to develop and safeguard the company's critical areas of expertise. Wärtsilä's research organization has long-term co-operation agreements with research institutes, engineering consultants, licensees and other corporate partners in fields that are of crucial importance to the well-being of society and conservation of the environment.

Range of fuels used in Wärtsilä engines

Liquid, oil-based fuels	Gaseous fuels	Biofuels (examples)
Light fuel oil (LFO)	Natural gas (NG)	Rape seed oil
Heavy fuel oil (HFO)	Liquefied natural gas (LNG)	Palm oil
Crude oil (CRO)	Compressed natural gas (CNG)	Coconut oil
High-viscosity base oils	Associated gas	Biodiesel (B100)
Orimulsion®	Coal bed gas (methane)	
Water-fuel emulsions		

Product development is based on effective work process management to ensure that the set targets are reached. These boundary conditions form the hub of the process around which a reliable and cost-effective product is developed. The performance of the products and their features are verified through simulations and tests. Wärtsilä actively develops the compatibility of its products and common technology platforms, as well as designing products that are easy to manufacture. A substantial proportion of the company's investments in product development is targeted at reducing environmental impacts. Total R&D expenses are shown in the Financial Review section of this report.

The most important R&D priorities for Wärtsilä in recent years have included the application of common-rail technology to its engines, reducing emissions, improving efficiency and broadening the range of suitable fuels. The use of multifuel engines give customers more flexibility in selecting fuels and in reducing the environmental impacts of their operations, offering environmentally sound solutions with low running costs far into the future.

Major R&D programmes during 2006 related to the Hercules project, the Advanced Diesel Generating Set project, and the development of fuel cells. Wärtsilä also co-operates with a number of leading European universities conducting research into engine technologies.

The Hercules project

Wärtsilä is a participant in the Hercules project, the aim of which is to develop new technology to reduce gaseous and particulate emissions from marine engines. A second objective is to increase engine efficiency and reliability, which in turn will

reduce specific fuel consumption, carbon dioxide emissions and engine lifecycle costs. Successive objectives for improvements to be available onboard ships are set for 2010 and 2020.

The Hercules project, funded by the EU Commission, is a part of the EU's Sixth Framework Programme. A consortium consisting of 39 partners from 10 countries is responsible for the realization of the project. As a result of the Hercules activities both the Extreme Value Engine (EVE) and the testing environment in the Internal Combustion Engine Laboratory of Helsinki University of Technology have been entirely renewed. Another important achievement is the completion of a new test facility based on a high-temperature spray combustion chamber for testing large-bore diesel engines. Using these advanced testing facilities, Wärtsilä has succeeded in creating an excellent platform for further enhancement of its engines aiming at next-generation products featuring high efficiency and low emission levels.

The Hercules programme ends in September 2007. The main parties in the present programme, Wärtsilä and MAN Diesel, are preparing a follow-up project to be executed within the EU's Seventh Framework Programme. The main focus of this follow-up project will be to further improve total engine efficiency and to reduce exhaust gas emissions down to ultra-low levels.

Advanced diesel generating set (GENSET)

The main aim of this project, which is funded by Tekes, the Finnish Funding Agency for Technology and Innovation, is to develop a compact and highly competitive diesel generating set by exploiting the benefits offered by permanent magnets and axial flux technology. The plan is also to make an inventory of the knowhow available at a number of Finnish research institutions in



The "Extreme Value Engine" EVE is a single-cylinder medium-speed research engine featuring common-rail fuel injection and an electrohydraulic valve actuating system. The basic engine structure is dimensioned to cope with loadings far beyond what today's production engines are capable of.

order to create concepts for future fuel injection systems, valve actuating systems and turbocharging systems. Prototype design was completed during 2006. Several engine components and concepts were tested in support of the design work. It is planned to commence validation of the prototype advanced diesel generating set in spring 2007 at the Waskiluoto Validation Centre in Vaasa, Finland.

Development of fuel cell technology

A fuel cell is a clean, efficient and reliable method of producing energy, making it a highly attractive option for commercial power production. Wärtsilä is committed to supplying its customers with efficient and environmentally sustainable power generation solutions. Developing the energy generation technologies of the future, such as fuel cells, is a key element in Wärtsilä's strategy for sustainable development.

Wärtsilä has been developing fuel cell technology for decentralized power generation and marine applications since 2000. The company's fuel cell development team is focusing on developing, designing and manufacturing a solid oxide fuel cell (SOFC) system. In this work Wärtsilä is taking advantage of its extensive knowhow in combined heat and power generation, and the company's in-depth knowledge of its marine customers' needs.

Part of the R&D programme covers the development of the WFC20 alpha prototype, a 20 kW SOFC unit. Wärtsilä plans to introduce its first commercial demonstration units in the 50 kW range within the next couple of years, after which the company

will evaluate various pre-commercial applications. Commercialization of fuel cell units for onshore and offshore power plant applications will start at the beginning of the next decade. In 2007 Wärtsilä is participating in three major EU-funded development projects in which three fuel cell units developed by Wärtsilä will be built and tested.

Reducing sulphur oxide emissions from marine engines

Currently, the only way of reducing the sulphur dioxide emissions from existing diesel engines is to use a lower-sulphur fuel or a secondary cleaning method. Marine diesel engines normally run on heavy diesel oil (HFO), which typically has a sulphur content in the range of 1.5–3.5%. Low-sulphur fuel (below 1.5%) can be used assuming this is available and bunkering costs are not excessively high. For this reason a secondary system might be a suitable solution for reducing sulphur dioxide emissions.

Wärtsilä started a two-year project in 2006 with the purpose of testing an exhaust gas scrubbing device to remove sulphur oxides (SO_x) from the exhaust gases of marine diesel engines and oil-fired boilers when using typical grades of HFO.

The aim of the project is to study the practical viability of such scrubbing devices in real applications and to identify any technical difficulties arising from their use. The project involves studying the effect of the scrubber's structure on its performance, lifetime and operational economy, as well as the effect of the scrubber on engine performance, along with the scrubber's installation requirements, wastewater criteria, ecological impacts, and any incidence of acid rain and white smoke.

A wide-reaching environmental study concerning wastewaters has been started by various research institutes and maritime authorities. The report proposes the development of waste treatment systems to prevent them from imposing negative impacts on the ecosystem. The results of the report will also be released to members of the International Maritime Organization (IMO) in order to establish the wastewater criteria necessary to the design of an exhaust gas scrubber.

Wärtsilä is using this project to gather unique knowhow on exhaust gas scrubbers in ships for both new equipment and retrofitting. The results of the project will be employed extensively in a number of different applications.

Collaboration with stakeholders

Wärtsilä has long collaborated with different stakeholders. Co-operation with customers and suppliers creates added value for the entire supply chain as well as for the end-customer. Identifying and achieving common goals succeeds best through co-operation with the whole supply chain. A good example is the Enviropax project, in which the parties involved jointly developed a concept for a vessel that can improve the overall efficiency of ships by up to 10% compared to conventional solutions.

Wärtsilä is collaborating with Mitsubishi Heavy Industry in the fields of product development, manufacturing and distribution. Wärtsilä is also developing two new engine types in co-operation with Hyundai Heavy Industries. At the end of 2006 Wärtsilä started co-operation with Becker Marine Systems aimed at further development of marine propeller-rudder systems.



Lifecycle thinking and using results

Since Wärtsilä's products have such a long operational life, identifying the lifecycle impacts of the products is essential to understanding their total environmental impact. The results of the lifecycle assessments showed that most of the environmental impacts during the lifecycle of a diesel engine arise during the operation of the engine; exhaust emissions from engine operation and the fuel supply chain relating to its operation cause most of the environmental impact. Wärtsilä manages the lifecycle of its products through product design, careful choice of suppliers, production methods, optimizing transportation, maintenance and repair during the products' operational lifetime, and by training and advising customers.

Wärtsilä's environmental targets 2006–2010

Targets in 2006

Wärtsilä's R&D targets in 2006 related to the full release of 710 ppm NO_x engine concepts for power plant engines and, in the case of marine engines, compliance with upcoming US and EU regulations. These targets were partly achieved. The emission levels for power plant engines were reached. Full release, however, still requires a sufficient base of engines in operation. The emission levels of the Wärtsilä and Wärtsilä 26 marine engines have been tested but certification of the engines will take place in 2007.

Targets for 2008–2010

The research and development targets relate to improving the fuel consumption of diesel and gas engines, reducing fuel consumption and emission levels in the 2-stroke engines, and reducing emission levels in common-rail engines. The targets have been set for the years 2008–2010 and the work towards reaching these targets is proceeding according to plan.

The Ship Power business's targets for 2010 concern a broadening of the gas concept, increasing sales of environmental seals, and improving the propulsive performance of sea-going vessels. Work towards reaching these targets is proceeding as planned.

The Services business's targets for 2010 call for an increase in diesel-to-gas engine conversions, sales of exhaust gas scrubbers, and an increase in the number of engines covered by CBM and O&M agreements. Work towards reaching these targets is proceeding as planned.

The Power Plants business's targets for 2008–2010 concern the introduction of a combined effluent treatment unit for treating various plant effluents, the market launch of wet techniques for optimized NO_x reduction and fuel economy, and the active sales and marketing of power plant technology based on renewable fuels. Work towards reaching these targets is proceeding as planned.



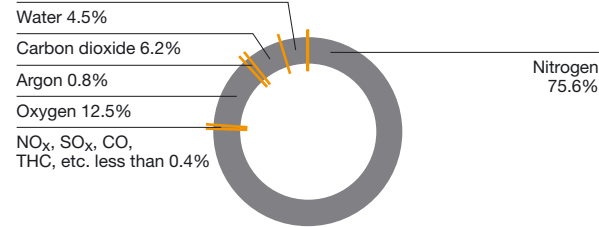
Products and environmental aspects

Environmental aspect and product	Component	Environmental impact	Wärtsilä's solution
Emissions into the air			
Engines	Carbon dioxide (CO ₂)	Climate warming	Increasing engine efficiency, multifuel engines
	Sulphur oxides (SO _x)	Acidification	Increasing engine efficiency, several emission reduction technologies, multifuel engines
	Nitrogen oxides (NO _x)	Acidification, eutrophication, lower atmosphere ozone formation	Low NO _x combustion, air humidification technologies, SCR, multifuel engines
	Particles, smoke (PM)	Human health impacts, visual impact	Optimizing the combustion process, common-rail fuel injection, electrical filters
	Carbon monoxide (CO)	Reduces oxygen uptake in the lungs	Optimizing injection, compression, and the shape of the combustion space, oxidation catalysts (gas engines)
	Hydrocarbons (THC, VOC)	Climate warming (CH ₄), ozone formation in the lower atmosphere, some carcinogenic compounds	Oxidation catalysts in gas engines for VOC emissions, optimizing the combustion process
Consumption of raw materials			
Engines	Cast iron, alloy and structural steel, aluminium alloys Main chemical elements of engines: Fe 90.8%, Al 2.7%, C 2.2%	Depletion of natural resources	Long product life, using recycled materials, material efficiency, automated filters, modernizing engines, overhauling and recycling components
Propulsion systems, seals	Metals, bronze, Main chemical elements of propulsion systems: Cu 80.1%, Al 9.3%, Ni 4.9%	Depletion of natural resources	Long product life, using recycled materials, material efficiency
Power plants	Several different materials such as steel, concrete, seals, water	Depletion of natural resources	Prefabricated modules, material efficiency
Secondary cleaning technologies	Alloy and structural steel, different types of catalyst materials, reagents (e.g. ammonia, urea), water	Depletion of natural resources	Developing primary technologies, developing secondary technologies in collaboration with equipment manufacturers
Consumption of fuel and lubricating oils			
Engines and power plants	Liquid oil-based fuels (e.g. LFO, HFO, Orimulsion®), gas fuels (e.g. LNG, NG, CNG) and biofuels (e.g. rape seed and palm oil, biomass), lubricating oil	Depletion of natural resources	Improving energy efficiency, reducing the consumption of lubricating oil, multifuel engines, utilizing biofuels and alternative fuels in power production
Propulsion systems	Lubricating oil	Depletion of natural resources	Improving the total operating efficiency of ships, increasing the service life and reducing the consumption of lubricating oil, preventing oil leakages
Solid and liquid waste			
Engines	Lubricating oil used, filters and components, waste oil	Increased waste at landfill sites	Using recyclable materials and optimizing the use of materials, automated filters, long service intervals, overhauling components, reducing the consumption of fuel and condition-based maintenance (CBM)
Power plants	Construction waste, ash, waste water, waste oil, office waste	Increased waste at landfill sites	Prefabricated, ready-to-install modules
Secondary cleaning systems	End products and catalysts of flue gas decontamination	Increased waste at landfill sites	Evaluating the potential uses of end products, developing dry primary technologies
Noise and vibration			
Engines and power plants	Structure-borne noise, flue gas noise, airborne noise	Discomfort	Efficient noise reduction solutions and damping systems, e.g. re-positioning wall structures and noise-generating sources
Heat emissions			
Engines	Waste heat from exhaust gases	Warming of the atmosphere	Heat recovery systems
Electric and thermal energy			
Engines and power plants	Electric and thermal energy	Increased well-being	Energy-efficient solutions

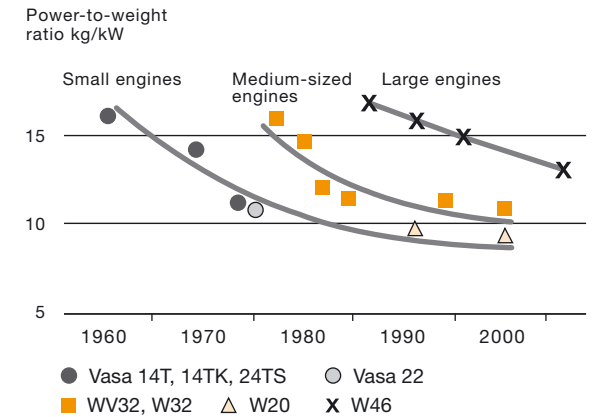
Customer's options

- Using a different fuel
- Using a fuel with a lower sulphur content and investment in secondary emission reduction technologies
- Using a different fuel and investment in secondary emission reduction technologies
- Using a different fuel and investment in secondary emission reduction technologies
- Planned or optimized maintenance, correct operation and investment in secondary emission reduction technologies
- Planned or optimized maintenance, correct operation and investment in secondary emission reduction technologies
- Planned or optimized maintenance and correct operation, personnel training, overhauling and recycling components
- Planned or optimized maintenance and correct use
- Efficient and planned operation of power plant, personnel training, recycling catalysts
- Proper operation and maintenance, optimizing process parameters
- Planned and optimized maintenance and correct operation, personnel training, using environmentally benign fuels
- Using environmentally favourable lubricating oils, using environmentally favourable seals
- Planned and optimized maintenance and correct operation, personnel training, recycling
- Recycling, planned maintenance and correct operation, personnel training
- Proper waste disposal, recycling catalysts, evaluation of the potential uses of end products, optimizing process parameters
- Planned maintenance and correct operation of power plant
- Optimizing process parameters
- Correct operation

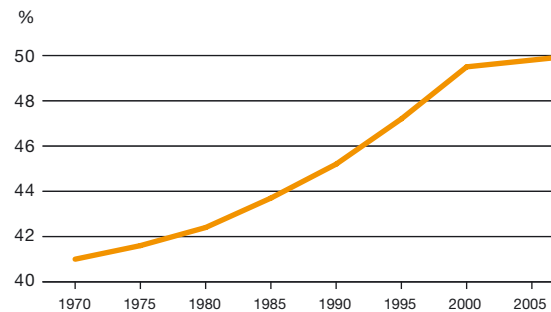
Typical composition of the exhaust emissions of a large diesel and gas engine



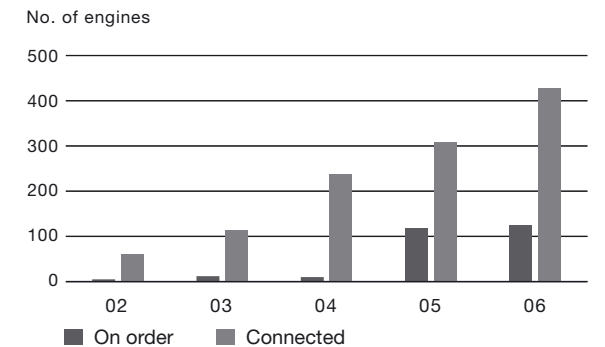
Power-to-weight ratio of Wärtsilä's medium-speed engines for 6-cylinder in-line engines



Development of the shaft efficiency of Wärtsilä's best engines



Engines connected to CBM



The environmental aspects of Wärtsilä's products are mainly related to their use. The most significant environmental aspects concern engines. In order to produce mechanical and thermal energy engines use fuel and lubricants, which results in various kinds of exhaust emissions and waste. Engine running also results in waste heat from the exhaust gases and cooling water. The main environmental aspects and impacts of Wärtsilä's products and applications, as well as Wärtsilä's solutions to these, are explained in the table opposite and on Wärtsilä's Sustainability internet pages www.wartsila.com/sustainability.

Ship Power Solutions

Wärtsilä's engine room and propulsion solutions for marine applications are reliable, economical and environmentally sound. Wärtsilä tailors its solutions to the precise needs of its customers by optimizing the entire ship machinery, propulsion and control system. The main drivers are efficiency improvement, emissions reduction and compliance with regulations.

Wärtsilä also provides lifetime support to ensure the high availability and reliability of the vessel throughout its service life. Wärtsilä's service portfolio includes training, spare parts, technical support, and continuous technology upgrades and improvements.

Efficiency improvement

Efficiency of machinery solutions

The marine industry is continuously investigating new ways of reducing the environmental impact from ships and accordingly Wärtsilä is seeking to find better propulsion machinery solutions for ships. This involves looking at the entire shipping concept, not only the engines and propellers. Wärtsilä has gained good experience working with its partners in the design of various concepts, some of which have been presented in its earlier Sustainability Reports.

Case: Wärtsilä Low-Loss concept for Normand Skipper

Normand Skipper is equipped with the Wärtsilä Low-Loss Concept, a modern diesel-electric propulsion system with considerably lower losses than traditional systems. Lower losses in turn reduce operating costs. The system does not have regular propulsion transformers and the complete electrical system is placed in the central switchboard room, which simplifies installation and commissioning.

Equipment and crew safety are being given increasingly high priority among shipowners and their end customers. The Low-Loss system is designed specifically to increase vessel safety and operability. For example, the assured main power supply and modularized frequency converters provide higher availability than for traditional systems. In the event of a serious failure in the electrical plant, in most cases all propellers will still remain in operation compared to only 50% of the propellers in a conventional system.

The concept has a low level of total harmonic distortion and always below the DNV recommendation of 5%. The system also has a very low short-circuit current level. This makes it possible to increase the power, enabling Wärtsilä to deliver a 690 V system with more than 20 MW generated power. The concept opens up new applications and simplifies the construction for the yards, which reduces the commissioning period and thus enhances the shipowner's business.

The owner of Normand Skipper, Statoil, considers low fuel consumption and low emissions extremely important. This inspired Wärtsilä to develop its Low-Loss Concept. The losses in the system are expected to be reduced by 15–20%, and will be verified in future projects.

Case: LNG-fuelled RoPax vessel – a clean and economical alternative

Wärtsilä has made further progress in making liquefied natural gas (LNG) technically available as a fuel for ships through the development of a new concept for RoPax vessels using LNG as fuel. As noted in the previous concept (Wärtsilä Sustainability Report 2005), using natural gas as ship fuel considerably reduces the vessel's exhaust emissions. Today's oil prices and restrictions on fuel sulphur content in certain areas justify the use of LNG purely on economic grounds.

The new concept has been applied to a typical RoPax vessel operating in Northern Europe. The vessel capacity is 2500 lane-metres and 440 passengers, and the cruising speed is 21.5 knots with an installed propulsion power of 23 MW.



“As shipping continues to grow in importance, its environmental impacts will increase without investments in solutions that protect the environment. The products we develop and offer feature high efficiency and low emission levels. Future solutions will emphasize optimization of total ship efficiency.”

Jaakko Eskola, Ship Power

The RoPax ferry machinery features a typical twin-shaft arrangement used widely in this vessel type. The machinery consists of four Wärtsilä 6L50DF propulsion engines and two 6R32DF auxiliary engines.

The storage of fuel in existing LNG-fuelled vessels is not very efficient due to their cylindrical-shaped tanks. In this new concept an alternative tank arrangement was investigated and an IHI-SPB type storage tank used in LNG carriers was found applicable. This provides an easier tank construction and a geometrically freely selectable shape, which will result in saved space and also a smaller first cost.

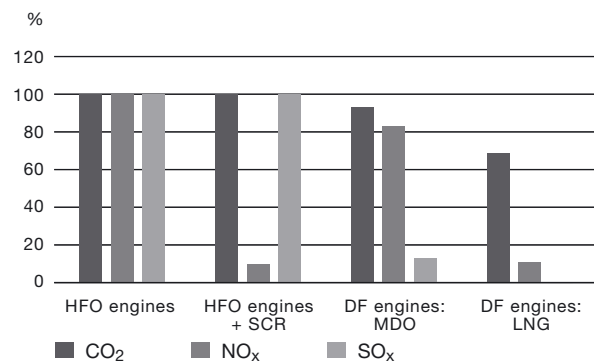
One goal of this concept study was to establish the cost impact of DF machinery compared to a conventional HFO arrangement. Additional equipment is needed when using LNG, but conversely a large amount HFO-related machinery can be eliminated. The DF version costs roughly the same as the HFO-machinery version in series-produced new-builds.

Owing to the elimination of the HFO components, the electrical power consumption is lower for DF machinery, which results in a reduced total energy demand. The low temperature of LNG can also be utilized for vessel air conditioning, which further reduces the energy consumption. A fuel consumption calculation for a typical operating profile between Finland and Sweden indicates over 5% savings measured in used fuel energies.

Solutions for efficiency improvement

Concept	Major benefits	Presented in report	Update (December 2006)
Enviropax	<ul style="list-style-type: none"> • Lower lifecycle costs • Increased cargo space • Extremely low smoke and NO_x emissions 	2004 & 2005	No such concepts sold.
LNG Carrier machinery	<ul style="list-style-type: none"> • Higher efficiency compared to the steam turbine • Lower exhaust emissions • Optimized vessel design with increased cargo capacity and operating speed 	2004 & 2005	Applying its innovative dual-fuel technology, Wärtsilä enables a reduction in CO ₂ emissions of 41,000 tonnes per year from ships compared to building these ships with traditional machinery solutions. Wärtsilä has orders for DF engines to 52 LNG carriers. The first two vessels entered commercial operation in the last quarter of 2006.
Waste Heat Recovery	<ul style="list-style-type: none"> • Lower fuel costs • Reducing emissions 	2005	39 engines of type RT-flex96C had entered into operation by the end of 2006, increasing fuel economy by 11%. Other solutions will follow. Theoretical investigations have been started to increase the WHR rate.
Delta Tuning	<ul style="list-style-type: none"> • Lower fuel consumption 	2005	Delta Tuning is highly accepted in the market. It is estimated that more than 50% of the RT-flex engines are sold with Delta Tuning. The choice between standard and Delta tuning allows optimization of the fuel consumption and consequently CO ₂ emissions according to the specific ship operating conditions.
LNG Cruise Ferry	<ul style="list-style-type: none"> • Eliminated SO_x emissions and reduced NO_x and CO₂ emissions • Cost-effective operation in various operation modes 	2005	Development of LNG-fuelled vessel concepts is continuing. No LNG-fuelled ferries sold with Wärtsilä's concept so far.

Exhaust emissions by petrol type



LNG machinery in RoPax vessel



The calculated reductions for exhaust emissions with DF machinery are 31% for CO₂, 89% for NO_x and 99.8% for SO_x when compared to standard HFO machinery without SCR (Selective Catalytic Reduction). Using SCR, NO_x emissions with HFO machinery can be reduced, but CO₂ and SO_x will still remain unchanged.

When taking into account both capital and operating costs, the DF machinery shows an annual saving of almost 1 million euros at current fuel prices, compared to corresponding HFO machinery.

Efficiency of propulsion systems

The propulsive efficiency of a propeller is affected both by the open-water efficiency of the propeller and by the interaction between the hull and the propeller. Overall propulsion efficiency, therefore, can be enhanced by improving the efficiency of the propeller, the hull, or both.

Solutions for improved propulsion system efficiency

Wärtsilä is actively promoting products which in themselves improve the propulsive efficiency. These are the Efficiency Rudder, the HR nozzle, the E hub Controllable Pitch Propeller introduced in 2005, and various control systems, without of course forgetting propeller design tailored to match each application.

Case: Hybrid propulsion systems for yachts

For large yachts and ferries, there is a need for propulsion systems adapted to unique varied mission profiles and varying sailing speeds. The higher the ship speed, the larger the power density on the propeller. An increase in power density means a more complicated design. For propellers there is an upper limit in power density given the possibility of thrust breakdown. This limit stands at about 1.8 MW/m², which implies that for large ship speeds using propellers only, the propeller may be too big and too heavy to be accommodated under the vessel. The situation is exactly opposite for waterjets; the higher the ship speed, the higher the maximum power density (a power density of 5 MW /m² is possible, which leads to a compact system). This favourable characteristic of the waterjet offers its fullest benefit at large ship speeds. At low ship speeds the waterjet power is limited by cavitation. A further challenge for yachts is how to optimize the propeller noise around 20 knots without using large propeller diameters which are difficult to match with the hull geometry.

For current yachts the normal propulsion machinery is two propellers driven by diesels. High levels of efficiency can be reached with relatively large propellers and high propulsive efficiency throughout the speed range, ensuring full availability.

Propulsion efficiency is a slightly different matter where a waterjet is concerned. For low ship speeds and given jet dimensions the ratio of inlet speed to outlet speed decreases, which results in a low overall efficiency. At high ship speeds, however, efficiency is much higher.

Hybrid propulsion systems have been applied to fast yachts for some time now. The basis for these applications has been the operating profile:

- a transatlantic/long-range condition with only propellers at approximately 15–18 knots
- cruising at 22 knots (top speed with propellers only)
- high-speed condition/30+ knot with jet and propellers

The propeller loadings stay moderate, while use of the booster jet gives the top speed which is only occasionally used. The hybrid solution is 25% more costly than a conventional system, but it offers greater flexibility and lower operational cost. By having a booster waterjet system the propeller size can be kept low and lightly loaded. Also the propeller offers good performance and efficiency at lower ship speeds. As such the hybrid propulsion system has been applied to large yachts, enabling efficient operation at low ship speed and the possibility of high ship speed operation with a still limited size of propellers taking advantage of the characteristics of the waterjet. This leads to the overall conclusion that a combined system offers superior propulsive efficiency. The overall gain compared to a propulsor concept with two propellers is at least 5%.

Case: The fast yacht Ecstasea

An existing solution of a hybrid propulsion system for a naval application is the fast yacht Ecstasea. This vessel is required to combine a high-speed capability with efficiency at low ship speed. The ship is designed by Feadship and has a length of 86m. It combines a LJ210E (23.000 kW) waterjet with two controllable pitch propellers of 4,640 kW each.

The waterjet propulsor remains well protected in the hull and does not increase the ship's draught. The controllable pitch propellers are four-bladed designs with a propeller diameter of 2.6 m and a hub with a diameter of 800 mm. A special blade design is applied to secure a high inception speed. The Wärtsilä Lips LJ210E waterjet has a 2.8 m diameter six-bladed impeller and intake duct diameter of 2.1m.

Reducing emissions

Emissions to the air

Most harbours in the world are located close to densely populated areas and for this reason the demand for no visible smoke under any circumstances has become increasingly important in recent years. Common-rail injection technology now makes it possible to provide smokeless engines. Wärtsilä has the widest range of products available with common-rail technology for heavy fuel operation.

The focus on reducing NO_x emissions continues to be of importance within the marine business. Also existing Wärtsilä and Sulzer engines can be modified with NO_x reduction technologies (common-rail injection, WETPAC H, WETPAC DWI and SCR).

Emissions to the water

Wärtsilä's CoastGuard EnviroSeal and Airguard 3AS environmental sterntube sealing system offers environmentally sound alternatives that prevent the spilling of lube oil from the sternshaft into the sea. They are available for use in new tonnage and for retrofitting to existing vessels. The sealing systems prevent both the leakage of bearing oil into the seaway and the ingress of water into the bearing system. They ensure continuous operation between planned maintenance periods, with no unplanned dry-dockings for emergency repairs.

Solutions for improving propulsion efficiency

Product	Major benefits	Presented in report	Update
Efficiency Rudder	<ul style="list-style-type: none"> • Optimum performance for both steering and fuel consumption • Reduction of power required to obtain a certain ship speed 	2004 & 2005	Performance improvements have been demonstrated by various projects. Manufacture of the cost-optimized rudder is under consideration. Lowering the investment cost would support the wider application of the rudder.
HR nozzle	<ul style="list-style-type: none"> • Larger thrust and increased bollard pull 	2004 & 2005	Full-scale performance data have been analysed based on several applications of the HR nozzle. Comparison with detailed flow calculations have been carried out to validate the prediction made. Current experience confirms fuel savings compared to the conventional nozzle types.
E-hub	<ul style="list-style-type: none"> • Minimum hub size can be selected • Improved efficiency of ice-strengthened controllable pitch propellers 	2004 & 2005	The hub has been introduced on the market. Several model tests are available that confirm proper performance. First full-scale service experience is obtained and favourable.
Tip rake (specially developed blade tip geometry)	<ul style="list-style-type: none"> • Improved propeller efficiency • Reduced vibration and noise 	2005	Several applications have been designed and applied as practical cases. Studies indicate the favourable characteristics of the approach. Practical experience is good.

Environmentally sound seal EcoSafe



Wärtsilä has produced a new series of the non-polluting sterntube shaft seal called the AC Enviroseal. The first of these, EcoSafe, have been fitted to two new twin-shafted vessels for Seatruck Ferries: Clipper Point and Clipper Race. These ferries will operate a fast, freight-only service on the Irish Sea between Heysham and Warren Point. The seals were selected for their environmental performance and long service life. The seals are part of a Wärtsilä Package that includes main, auxiliary and emergency engines, controllable pitch propellers, transverse thrusters and gearboxes.

Compliance with regulations

NO_x emissions

The minimum environmental requirement set by Wärtsilä for its Wärtsilä brand marine engines is compliance with the NO_x emissions limits stipulated in MARPOL 73/78 Annex VI.

Sulphur content in fuel

A range of new regulations related to the sulphur content in fuel is currently at the implementation phase.

The special IMO and EU requirements for SECA areas (Sulphur Emissions Control Area) on the 1.5% maximum sulphur in marine fuel content entered into force in the Baltic Sea in May 2006 and will be implemented in the North Sea and English Channel in the autumn 2007.

Emission reduction technologies

Area of concern	Technology	Principle	Benefit	Engines	Output (MW)
Smoke	Wärtsilä common-rail engines	The injection pressure is kept high and stable throughout the load range. Optimal engine operation is achieved at all speeds and loads.	Smokeless operation	72	673
	Wärtsilä RT-flex engines	Precise control of the injection, high injection pressures at low engine speeds and the sequential shut-off of the injectors combine to give steady running at low running speeds, down to 10–12% of nominal speed.	Smokeless operation Reduced operating costs	332	12.730
NO _x	WETPAC H (Humidification)	Pressurized water is added to the intake air after the turbo-charger compressor. The water evaporates instantly and enters the cylinders as steam, reducing the combustion temperature and thus NO _x formation.	Reduction typically 40%	48	137
	WETPAC DWI (Direct Water Injection)	A DWI valve, through which the water and fuel is injected into the cylinder.	Reduction typically 50%	61	585
	SCR (Selective Catalytic Reduction)	A reducing agent, such as an aqueous solution of urea, is injected into the exhaust gas. The urea in the exhaust gas decays into ammonia, which is then put through a catalysing process that converts the NO _x into harmless nitrogen and water.	Reduction 85–95%	94	487



In 2006 the fuel sulphur content was restricted to 1.5% for all passenger ships operating in regular service to or from EU ports and within EU territorial seas.

From 2010 the sulphur content of all marine fuels used in EU ports and inland vessels by all ships will be restricted to maximum 0.1%.

The California Air Resource Board (CARB) has issued reduced sulphur in fuel regulations applying to auxiliary engines (including diesel-electric) on ocean-going vessels operating within 24 nautical miles of the California coastline. The maximum sulphur in the fuel content is 0.5% from January 2007 and 0.1% from January 2010.

Additionally several voluntary regimes have been established alongside the mandatory regulations. For example in Sweden new sulphur-related fairway dues have been differentiated with the following limits:

- 0.2 and 0.5% for passenger vessels
- 0.2, 0.5 and 1.0% for other vessels.

Due to the new regulations, the shipping community is faced with new challenges on a large scale, especially those ships that will operate both inside and outside restricted areas, switching

over from one fuel to another, in some cases to a distillate fuel. Wärtsilä has issued guidelines and can offer technology for design and modification of the fuel system onboard to comply. However, the Wärtsilä engine itself (old and new) can cope with any fuel sulphur content.

For new-builds expected to operate purely within fuel sulphur restricted areas, fuel and lubricating oil filling, storage, transfer, separation, and supply systems can in principle be arranged as on a traditional HFO ship. However, to enhance the flexibility and second-hand value of the ship, consideration could be given to designing these systems also for alternating operation inside and outside the SECA areas.

Onboard exhaust gas cleaning of SO_x by using a scrubber system is an alternative to the use of high-cost, low-sulphur fuel qualities. Wärtsilä has initiated a project aiming at developing and testing marine scrubber technology. The project will investigate the effect of scrubber design on performance, lifetime and economy, installation requirements, discharge water criteria, ecological impact, risk of acid rain droplets, and white smoke, etc. Through this project Wärtsilä is developing unique knowledge and expertise about scrubbing technology for both new buildings and retrofit installations.

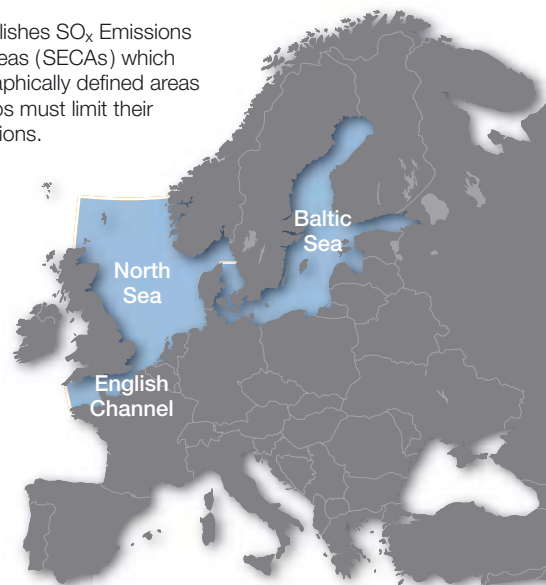
Smoke

Alaska enforces regulations governing the permitted smoke levels from ships. Wärtsilä has demonstrated its compliance with these regulations in a number of projects.

- Read more about the Ship Power business in the Business Review section of this report.

Sulphur emission controlled areas

IMO establishes SO_x Emissions Control Areas (SECAs) which are geographically defined areas where ships must limit their SO_x emissions.



Updates on marine sulphur in fuel regulations and future plans

2004	2005	2006	2007	2008	2010
Ratification of IMO Annex VI	EU Parliament passes Sulphur Directive 1999/32/EC Entry into force of IMO Annex VI Global limit 4.5%S Publication of Sulphur Directive 2005/33/EC	SECA Baltic Sea 1.5% sulphur max. or exhaust cleaning to 6 g/kWh EU directive enters into force: • 1.5%S max. in Baltic, 1.5%S max. for passenger ship and territorial seas in regular service to or from EU ports • Alternatively exhaust cleaning to 6 g/kWh	California • Use marine gas oil • Use marine diesel oil with 0.5%S limit • Use equally effective emission control strategies SECA North Sea and English Channel 1.5% Sulphur max. or exhaust cleaning to 6 g/kWh	EU review on further proposal for: • New SECAs • 0.5%S max. • Alternative measures including trading California • Fuel supply review	• 0.1% sulphur max. • On all marine fuel in EU ports and inland vessels. • Alternatively exhaust cleaning to 0.4 g/kWh California • Use marine gas oil with 0.1%S limit. • Use equally effective emission control strategies

Services

Wärtsilä Services has consistently developed its product portfolio through innovation and acquisitions. Customers today have a unique opportunity to obtain the largest range of services from a single source all round the world. Wärtsilä develops and optimizes the functionality and lifespan of its technologies, solutions and products in support of its customers' businesses.

Service agreements

Service agreements are the most effective way to ensure the reliable and environmentally sustainable operation of a product, as well as traceability and risk management. Wärtsilä's service agreements range from parts deliveries to full-scale operation and maintenance agreements worldwide, for Wärtsilä products and other trademarks. Each service agreement is tailored to the customer's specific needs.

Supply Agreement

A Supply Agreement ensures the supply of parts and materials to a specified location. Wärtsilä's Parts Logistics is a global system designed to ensure the correct timing of parts deliveries to customers. The system handles deliveries of original parts for Wärtsilä products such as propellers, seals and bearings, and covers more than 50 engine types including both current and older Wärtsilä and Sulzer engines as well as Nohab Diesel, GMT, Wichmann, SACM, Stork SW Diesel and Bolnes engines, and medium-sized and large Deutz marine engines. Wärtsilä also supplies system components. An extra option available is monitoring the parts stock at a plant and making replenishment recommendations.

Support Agreement

The services provided by Wärtsilä can be combined to form a total package as required, comprising for example regular technical inspections, major overhauls carried out by Wärtsilä personnel, inventory management, condition-based maintenance, remote monitoring and customized training plans. A Support

Agreement means having a Wärtsilä expert on site providing not only technical expertise but also advice and assistance in planning, training, reporting and administration.

Global Customer Agreement

Global Customer Agreements are designed to meet the challenging requirements of global ship operators. The agreements cover as many vessels as needed over selected intercontinental trade routes. The scope of an agreement can cover main and auxiliary engines, the engine room and propulsion equipment, and includes maintenance planning, onboard maintenance, regular inspections, condition-based maintenance, workshop overhauls, reconditioning, all spare parts, technical and operational support, and training. Global Customer Agreements are based on a fixed agreement fee, which makes operational costs much more predictable for the customer. Wärtsilä and the customer share the responsibility for achieving mutually agreed performance targets and for continuously improving performance. The routes sailed by ships can change and so the resources of Wärtsilä's service network are utilized to ensure the provision of services.

Long-Term Service Agreement or Maintenance Agreement

An LTSA covers the same range of services as a Global Customer Agreement but in addition includes the handling of routine maintenance, the supply of contingency stocks, an exchange part policy to minimize downtime, and monthly reporting. Wärtsilä provides personnel for daily maintenance and can also train the customer's personnel for this task.

“Our goal is to provide our customers with easier and more comprehensive service. We want to enhance our customers' business in the maritime and energy markets by providing a full range of service solutions.”

Tage Blomberg, Services

Operations & Maintenance Agreement

When operated and maintained properly, power plants achieve high levels of reliability and energy efficiency, long service life and low emissions. Under an O&M agreement, Wärtsilä is responsible for ensuring that the installation meets set performance and profitability targets and lifetime criteria, freeing owners to concentrate on their core business. Training of customer's staff is provided in specific products and plant types as required.

Training Agreement

To help customers maintain their installations at optimum performance levels, Wärtsilä offers its customers training in operation and maintenance in specific product types. Statistics show that this sort of training can significantly reduce the incidence of operation-related problems.

The Wärtsilä Land & Sea Academy's Learn@Sea and Learn@Plant programmes focus on specific issues for the marine and power plant business segments respectively. Other training packages cover Human Capital Development & Management (CHDM) and Competence & Career Management (C&CM).

Wärtsilä Land & Sea Academy also provides general seafaring training relating to the ship's engine room and other ship handling and design needs. The curriculum includes basic courses in sea safety and load handling, search and rescue courses, and navigation and management courses (resources, environment and safety). In addition to the basic courses, the Academy holds follow-up and refresher courses and courses tailored to individual needs. It is also possible to take accredited training programmes at the Academy to obtain IMO/STCW-95 certification.

Some Wärtsilä Services solutions

Condition-Based Maintenance (CBM)

Condition-Based Maintenance (CBM) is based on a unique combination of local inspections and remote monitoring of the mechanical condition and operating data. The system makes predictive maintenance possible, which minimizes interruptions to operation, increases safety and optimizes plant performance. At present (December 2006) 104 marine and power plant installations, with altogether 428 engines, are connected to this expert reporting service.

Units linked to the CBM system are not serviced at regular intervals; instead, service is based on real need. Experts compare and assess reports and remotely measured data from the installation and recommend specific service action based on this information.

Retrofitted new technology

Developments in technology make it possible to apply new technical advances to old equipment. Upgrades are made to improve the economic and environmental performance and the safety and reliability of systems.

Examples of technology applications include a pulse lubricating technology for 2-stroke engines, launched in September 2006, and a fuel system conversion, from oil to gas. Demand for these conversions has increased significantly in response to changes in fuel availability and prices and to ever stricter emission requirements.

Pulse Lubricating System Retrofit

The cost of cylinder lubricating oil is becoming an increasingly critical issue for vessel operators, as market prices for lubricating oil constantly rise and availability may weaken. Wärtsilä has developed the electronically-controlled retrofit pulse lubricating system (PLS) to reduce cylinder oil feed rates. The system reduces cylinder oil consumption without compromising piston running reliability.

The guide feed rate for Wärtsilä RTA and RT-flex engines retrofitted with the PLS system is 0.8 g/kWh of cylinder lubricating oil.

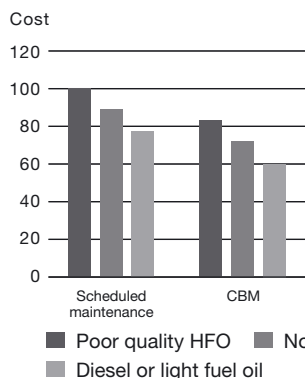
The PLS lubricating system reduces the cylinder oil feed rate compared with the existing system by improving oil distribution to the piston rings. It also makes possible a completely flexible and precisely timed oil delivery.

Service experience

Service experience has been gained with the retrofit pulse lubricating system both on the Wärtsilä RTX-3 laboratory engine and on shipboard test engines. The first production engine fully fitted with Retrofit PLS successfully passed its shop test in May 2006 and since then the system has been approved and installed on several engines.

The first Retrofit PLS test started on the RTX-3 research engine in June 2003. Shipboard testing began with a Wärtsilä RTA58T in September 2004 and later on an RT-flex96C engine. The system has accumulated more than 14,000 running hours in shipboard testing. The PLS performed outstandingly throughout

Cost comparison of maintenance system

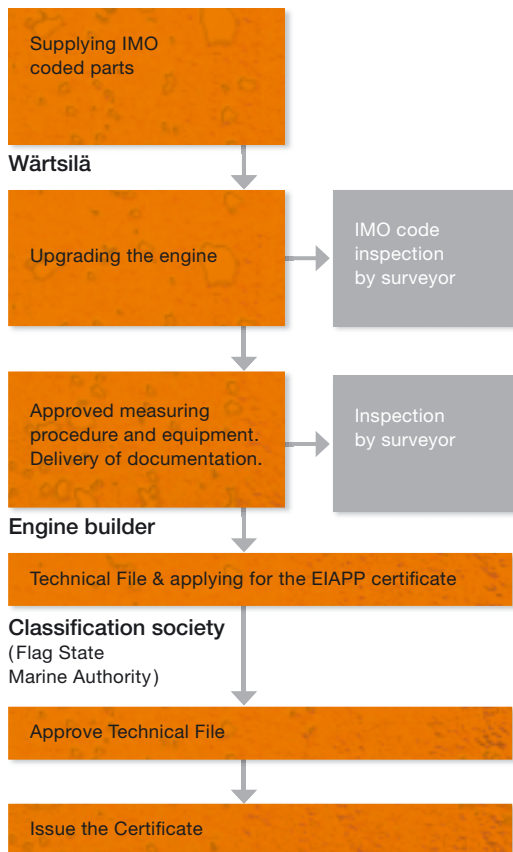


Maintenance cost, parts and work for 50,000 operating hours on different fuel qualities at 2002 price levels.



EIAPP certification of updated engines

Engine builder



this test period, with a feed rate constantly at or below the guide rate of 0.8 g/kWh.

Gas conversion

When an installation is designed, capital investment focuses on anticipated energy trends and existing environmental regulations. Over the lifetime of the installation, which is usually more than 25 years, fuel prices vary and environmental requirements become stricter. These factors often affect the profitability of the investment and may result in a different load profile, or in the need to invest in emission control technology or change to another fuel. An engine conversion is a simple way to restore profitability and comply with environmental requirements.

Gas-Diesel Conversion (GD)

A gas-diesel engine functions by injecting high-pressure natural gas into the diesel cycle, which means that only the engine injection equipment and control systems need to be modified. Ignition is with LFO pilot fuel and it is always possible to switch fuel, giving maximum fuel flexibility. GD conversion is available for Wärtsilä Vasa 32, Wärtsilä Vasa 32LN, Wärtsilä 38A and Wärtsilä 46 engines.

Low-Pressure Natural Gas Conversion (SG)

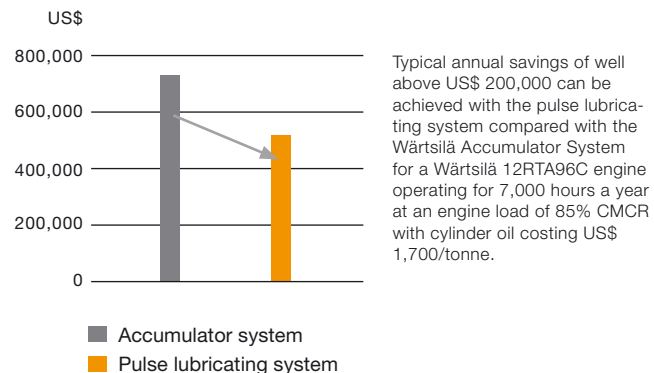
Converting Wärtsilä Vasa 32, Wärtsilä Vasa 32LN and Wärtsilä 32 engines to the Wärtsilä 34SG specification obtains the benefits of low-pressure natural gas in a spark-ignited otto cycle. The converted engine offers the same benefits as factory-built 34SG engines: high efficiency, low NO_x emissions, lean-burn and the most advanced technology.

Dual-Fuel Conversion (DF)

Wärtsilä 25, Wärtsilä Vasa 32, Wärtsilä 32 LN and Wärtsilä 46 engines can now be converted into dual-fuel (DF) engines and can then operate on low-pressure natural gas in an otto cycle or with other fuels, such as LFO or HFO, in a diesel cycle. Natural gas operation is becoming a more attractive proposition all around the world, and for many installations the only restriction on converting to gas is the limited availability of gas. Gas distribution channels are expanding, however, and the use of natural gas in many industries, including power generation, is expected to increase rapidly.

Wärtsilä has converted the old Wärtsilä 16V46 engine at the Denizli Cimento power plant in Denizli, Turkey, into a 16V50DF dual-fuel engine. The conversion to gas has been successful and both fuel costs and emission levels have fallen. The power plant has been approved by Turkey's environmental authorities and now operates flawlessly, generating more environmentally sound electricity.

Typical annual savings of PLS



Environmental technology

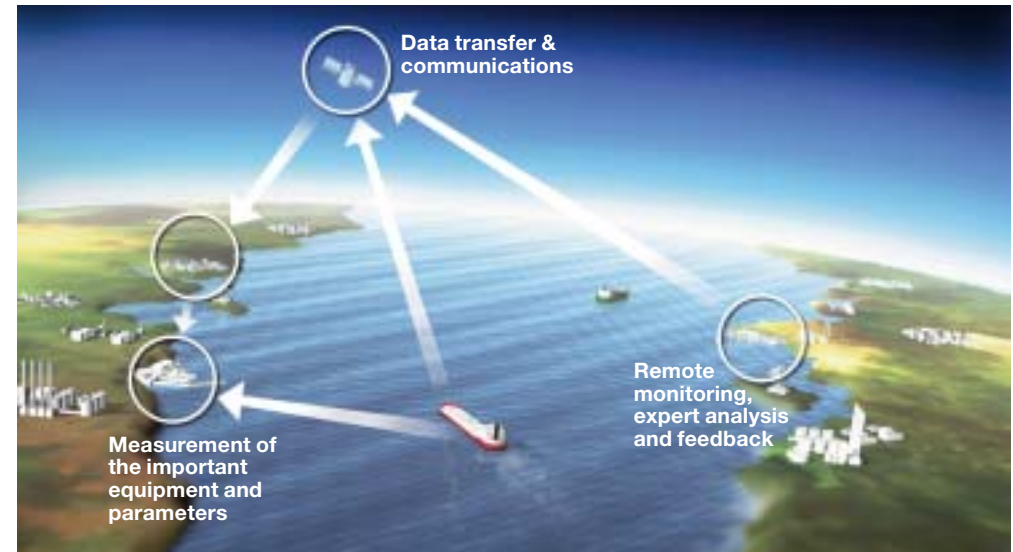
Wärtsilä develops and supplies a wide range of solutions that enable customer installations to comply with prevailing environmental requirements. These emission control technologies and combinations of them reduce smoke, nitrogen oxides (NO_x), sulphur oxides (SO_x) and particulate matters (PM) of different sizes.

A particular focus at the moment is reducing sulphur oxides, since the IMO MARPOL 73/78 Annex VI on air pollution has come into force, restricting sulphur emissions in the Baltic Sea, and will be extended to the North Sea and English Channel in November 2007.



Wärtsilä also offers its customers solutions that make it possible to modify or regulate most existing engines so that they conform to the IMO's NO_x emission requirements.

■ Read more about the Services business in the Business Review section of this report.

Condition-based maintenance



Alternatives for SO_x emission control

			
Gas scrubbing	Install an exhaust gas cleaning system on board	<ul style="list-style-type: none"> • Can be used everywhere • Easy operation • Works with high %S 	<ul style="list-style-type: none"> • ROI depends on price difference between HFO and HFO with low sulphur
Blending on board	Blend fuel prior to use in engines or boilers to match area requirements	<ul style="list-style-type: none"> • Flexible • Low investment 	<ul style="list-style-type: none"> • High operating cost • Blending stability • Verification by class
Running 1.5%S	Changeover to 1.5%S fuel or MDO in SECA areas	<ul style="list-style-type: none"> • Flexible • Small investment 	<ul style="list-style-type: none"> • High operating cost • Fuel changeover • Fuel availability • BN management
Balance emission	Balance emission between equipment so that the ship is globally compliant	<ul style="list-style-type: none"> • Convenient • Lower operating cost than MDO 	<ul style="list-style-type: none"> • High operating cost • Real-time sulphur monitoring
Running MDO	Run full-time in MDO	<ul style="list-style-type: none"> • Convenient • No changeover 	<ul style="list-style-type: none"> • High operating cost • Tank size

Power Plant Solutions

Wärtsilä's power plant solutions are based on diesel, gas or dual-fuel engines that are designed to run on various types of oil and gas. Wärtsilä Biopower offers boiler plants designed primarily to burn solid biomass fuels. Wärtsilä's power plants business is focused on three market segments that serve specific customer groups and regions, as shown in the diagram opposite. Wärtsilä's global service network offers complete customer support covering the entire lifecycle of the plant for all of the power generation solutions it delivers. This is achieved through versatile and sophisticated service products and agreements, including full plant operation and maintenance.

The main products of Wärtsilä's Power Plants business are gas-engine plants running on natural gas, and diesel engine plants running on heavy fuel oil. Alternative fuels include bio-oils and crude oils. Of Wärtsilä's total power plant orders, the proportion of power plants running on light fuel oil and bio-oils has been increasing in recent years.

Flexibility

Flexibility is one of the principal features of Wärtsilä power plants. Flexibility is the result of several different factors, such as scope of delivery, fuel flexibility and operational flexibility.

The scope of delivery of a project is determined by each customer's needs, varying from a simple engine to the supply of a complete turnkey power plant that could also include a tailored operation and maintenance service. Each power plant is highly modular in design, which offers excellent latitude for expansion or modification in the future should needs change.

Fuel flexibility translates into lower risks for the customer with wider scope to optimize energy production costs and emission levels. The triple fuel solution based on the Wärtsilä 50DF engine ensures high efficiency when using gas, light fuel oil or heavy fuel oil, with the possibility to switch fuels without any interruption to electricity production. The plant is less dependent on fuel supply and fluctuations in fuel costs, which improves its overall economy and the reliability of electricity production.

Operational flexibility in the case of Wärtsilä power plants means the ability of the plant to adapt to the needs of the electricity grid and thus act as a stabilizing factor in the grid. Rapid start-up, good load characteristics, and high efficiency also at partial loads are strengths needed by units responsible for keeping grid frequency and voltage stable while electricity consumption varies continuously.

Bio-oils

Bio-oil is expected to be an increasingly important source of energy in the future. Energy policy in many countries calls for an increase in the proportion of biofuels as a source of primary energy, for example by increasing their use in transportation. Similarly, the use of biofuels in energy production is growing in many countries.

Bio-oils offer a number of advantages such as low CO₂ emissions and independence from the price fluctuations and varying availability associated with fossil fuels. Their use in power generation, assuming this applies the principles of sustainable development, can also increase the well-being of local communities.

The impact of biofuels on greenhouse gases is not always insignificant, especially when taking into consideration the impacts from producing and refining them. Wärtsilä bio-oil plants are usually based on low-grade bio-oils. These are also normally the lowest in cost and therefore the most economic choice for



“Our goal is to enhance our customers' businesses through environmentally sound and flexible power solutions. Plant efficiency remains our number one priority.”

Christoph Vitzthum, Power Plants

power plant owners. Bio-oil power plants also have low emission levels of traditional emission components. Only a marginal amount of sulphur dioxide arises owing to the low sulphur content of the fuel. Particulate emissions depend on the ash content of the fuel; using low-ash bio-oil it is possible to meet the strict European limits without the need for secondary control methods. NO_x emissions are normally treated in biofuel plants using SCR (Selective Catalytic Reduction) equipment.

Efficiency and cost-competitiveness

GasCube and OilCube plants represent a new design of power plant that is especially compact and cost-effective. Their high efficiency is based primarily on a Wärtsilä 20V34SG gas engine or 20V32 diesel engine. As a compact, ready-to-use product, a Cube power plant is best suited to smaller turnkey contracts.

Cube plants have an extremely high degree of prefabrication, modularity and standard components, which considerably reduces the amount of installation work at site and thus plant costs. The concept also improves installation quality and reduces environmental impacts due to the smaller amount of on-site construction waste.

The Cube plants are based on radiator cooling, which ensures low water consumption. The plant's net efficiency is raised, in addition to the high efficiency of the engine itself, by the minimized energy need of the plant. Similarly, space requirements

are considerably lower than for traditional solutions. Cube plants are primarily suitable for electricity generation but can also be equipped with engine and flue gas heat recovery equipment for use as a CHP plant.

Combined heat and power production

In combined heat and power (CHP) generation, also called cogeneration, the residual heat from the engine cooling water and flue gas is used to produce thermal energy in the form of steam or hot water. This thermal energy is typically used in a district heating network, an industrial process or a chiller. CHP typically achieves 75–90% overall efficiency, thereby significantly reducing emission levels per unit of energy.

Reducing emissions

One of the principal aims of Wärtsilä's Power Plants business is to maintain a high level of expertise in cleaning methods and to keep in its product range a variety of tested emissions reduction technologies for different market needs. Methods of reducing emissions fall into two main categories: primary and secondary. Primary methods help prevent emissions from arising in the first place, whereas secondary methods reduce the amount of emissions that do arise.

The use of primary methods is often recommended as these are effective ways of eliminating the need for additional investments and possible additional environmental loads. In Wärtsilä power plants the first priority in emissions reduction is to use dry

Wärtsilä's power plant segments

Baseload	Power generation for industry	Grid stability
<ul style="list-style-type: none"> • Developing countries • Islands, remote locations 	<ul style="list-style-type: none"> • Oil and gas • Mining • Textile • Cement • Municipalities 	<ul style="list-style-type: none"> • Areas without hydropower

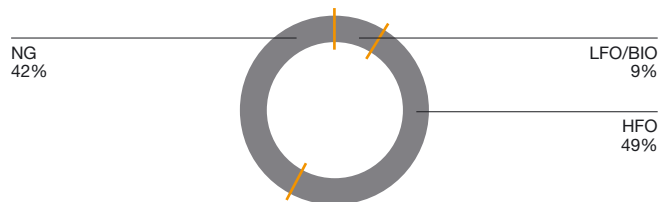
primary methods, which in practice means optimizing the engine, while at the same time guiding the customer in choosing the right quality of fuel.

In certain applications wet primary methods achieve the best overall result because the reduction efficiencies achieved with dry methods are limited. In its power plants business Wärtsilä considers the most potential wet reduction technologies to be controlled humidification of the combustion air and the use of water-in-fuel emulsions.

Secondary methods comprise various types of flue gas cleaning methods. Their use and the need for them depend very much on the location of the plant and local fuel availability and fuel prices. Wärtsilä actively engages in development work with its equipment suppliers, an important element of which is to raise

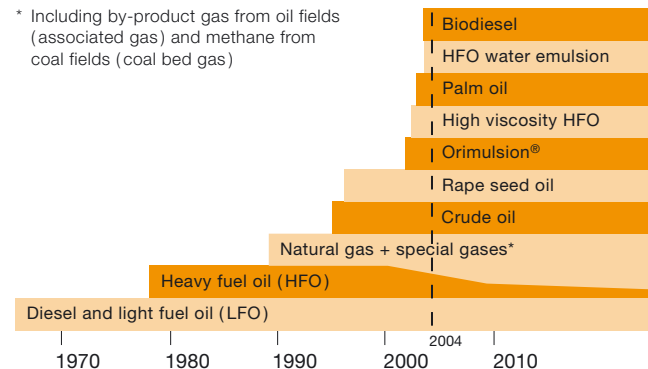
Orders for power plant engines by type of fuel

(June 2005 – May 2006)



Types of fuel used in Wärtsilä's engine-driven power plant

* Including by-product gas from oil fields (associated gas) and methane from coal fields (coal bed gas)



the efficiency of the cleaning equipment in terms of both emissions reduction and cost.

Emission reduction technologies

SCR

Almost the only method used to reduce nitrogen oxides in the exhaust gas is Selective Catalytic Reduction. The other methods available today are either not cost-competitive with SCR or are not applicable to the engines in Wärtsilä's product family. Wärtsilä's range of power plants includes SCR products for both diesel- and gas-fired plants.

The ULE (Ultra Low Emissions) solution, developed especially for gas power plants in the USA market, is fitted with an efficient oxidation catalyst that makes it possible to reach the extremely low emission levels required for large plants, especially in areas where air quality is compromised. The first reference site for the new ULE solution, which was updated in 2005, is the 116 MW Western 102 plant in Nevada, where commissioning tests showed that the plant's emission levels were well below the emissions guarantee values. Wärtsilä has been contracted to supply several other plants equipped with ULE-type treatment systems in the near future including the Humboldt project (163 MW) in California and the Plains End II plant (113 MW) in Colorado.

FGD

Flue Gas Desulphurization (FGD) is a method used when sulphur dioxide limits cannot be met owing to the sulphur content of the fuels. Typically, two types of FGD systems are used in Wärtsilä power plants: sodium hydroxide (NaOH) and limestone (CaCO₃). Where flue gas desulphurization is concerned, either the investment cost or operating costs generally have a significant effect on the plant's economy and for this reason it is always important first to compare fuel qualities and costs. Plants with FGD systems are also challenging with respect to water consumption, the handling and disposal of the end product, and the dispersion and visibility of the flue smoke.

ESP

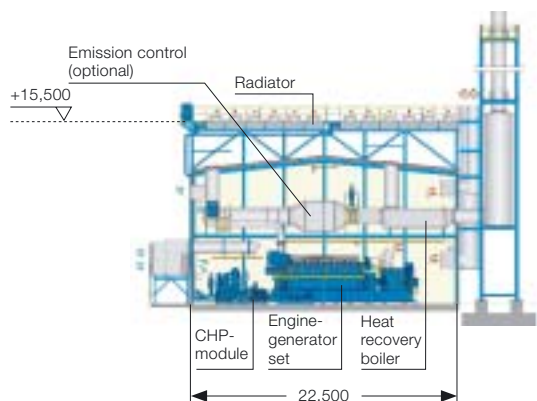
No competitive alternative to the electrostatic precipitator (ESP) has yet been found for reducing particulate emissions from an HFO-fuelled diesel engine. Burning HFO produces sulphur oxides, particles and, contained within these, certain harmful components. Owing to these substances the methods typically used in small diesel engines – particle traps, reactors based on particle oxidation, or a combination of the two – are not effective because they require extremely high-quality fuel to be effective. The disadvantages of alternative methods of reducing particle emissions, such as bag filters, are their intolerance to high temperatures, large pressure losses or extremely high investment costs.

Flue gas emission control units delivered on order by December 2006

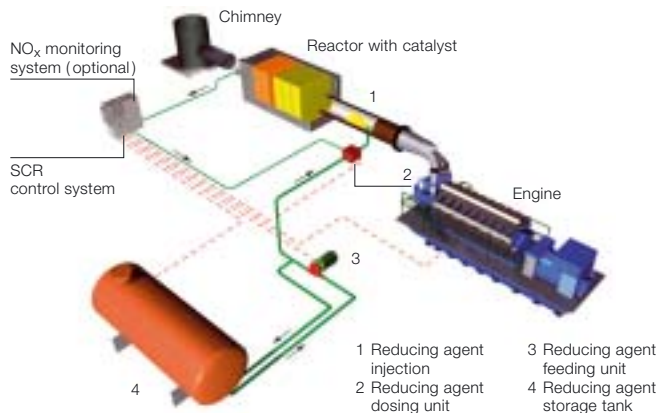
	Amount of engines	Output (MW)
SCR	155	988
Oxidation catalyst	269	1,244
ESP	10	160
FGD	59	683



A compact power plant designed for CHP generation



The ULE solution for a gas engine power plant



GasCube plant with Wärtsilä 20V34SG engine



Emission reduction technologies

Emission component	Technology	Principle	Benefit	Typical use
Reducing particle emissions	Choosing a better fuel type (ash/sulphur)	Using a fuel with a smaller ash and sulphur content reduces the particle emissions produced during combustion.	Fuel-specific	Diesel engine/ heavy fuel oil
	Electrostatic filter	In an electrostatic filter, the particles in the flue gas are charged with an electric current and the charged particles are collected on the surfaces of the filter's collector plates. A smallish amount of flue ash is generated as an end product. The particle content achieved also depends on the quality of fuel used.	The particle content of gas discharged through the filter normally varies between 20 and 50 mg/nm ³ (15% O ₂).	Diesel engine/ heavy fuel oil
Reducing NO_x emissions	WetPac – H (humidity control)	The combustion air is humidified by injecting water into it, which lowers the combustion temperature and reduces emissions of nitrogen oxides. The amount of injected water required is determined according to air humidity, thus minimizing water consumption.	Typical emissions are reduced by approx. 15–20% at the minimum air humidity level.	Diesel engine
	SCR (Selective Catalytic Reduction)	Nitrogen oxides (NO _x) are reduced into nitrogen (N ₂) and water vapour (H ₂ O) using ammonia or urea at a suitable temperature on the surface of the catalyst. Process control enables the amount of inactive ammonia in the flue gas to be kept low.	Collection efficiency 80–90%. Larger collection efficiencies are possible, but not cost-efficient.	Diesel or gas engine
Reducing SO₂ emissions	Lower sulphur content in fuel	The sulphur content of fuel is directly proportional to the sulphur dioxide emissions generated.	Fuel-specific	Diesel engine/ heavy fuel oil
	NaOH FGD (Flue Gas Desulphurization)	Sulphur dioxide is removed from the flue gas in a tower washer. Sodium hydroxide is used to neutralize the washing fluid. The plant produces wastewater as an end product, which should be treated.	A typical collection efficiency for SO ₂ is approx. 90%.	Diesel engine/ heavy fuel oil with low sulphur
	Limestone FGD (Flue Gas Desulphurization)	The limestone cleaner is based on a wet tower washer in which sulphur dioxide is absorbed from the flue gas. Calcium, for which a disposal procedure should be determined, is produced as an end product.	A typical collection efficiency for SO ₂ is 80–90%.	Diesel engine/ heavy fuel oil with high sulphur
Reducing CO emissions	Oxidation catalyst	Carbon monoxide is oxidized into carbon dioxide on the surface of the catalyst using the oxygen in the flue gas.	Depending on the amount of catalyst used, discharge efficiency is 30–90%.	Gas engines
Reducing hydrocarbon emissions	Oxidation catalyst	Hydrocarbons are oxidized into carbon dioxide and water vapour on the surface of the catalyst using the oxygen in the flue gas.	Discharge efficiency depends on both the catalyst chosen and the hydrocarbons involved.	Gas engines
Monitoring of gaseous emissions	Secondary method – fuel and process parameters	The secondary method is based on periodical flue gas measurements as well as on the systematic monitoring and reporting of certain process and fuel parameters.	Reliable measuring, minimal need for expertise at the plant, suitable for different market areas.	Diesel engine – typically e.g. SO ₂ emissions
	Continuous emissions monitoring (CEMS/AMS)	Emissions levels can be monitored constantly using automatic equipment. The operation and maintenance of the equipment requires personnel expertise to ensure reliable performance. The results reported may be uncertain if the necessary expertise is not available.	Actual emissions and exceedings are monitored and registered continuously.	Diesel or gas engine – typically e.g. NO _x emissions
Monitoring of particle emissions	Secondary method – fuel and process parameters	The secondary method is based on periodical flue gas measurements as well as on systematic monitoring and reporting of certain process and fuel parameters.	Reliable measuring, minimal need for expertise at the plant, suitable for different market areas.	Diesel engine
	Continuous emissions monitoring	Constant particle measurement is usually based on secondary monitoring, e.g. analysers that monitor opacity or light diffusion. Calibration based on reference monitoring gives a correlation with the parameter monitored. If the fuel and load conditions vary, the monitoring may not yield reliable results.	The apparent emissions level is monitored constantly and any limits exceeded are registered automatically.	Diesel engine

Although using good-quality fuels (low-sulphur light fuel oil and bio-oil) can in itself achieve substantially lower particulate emission levels compared with the use of heavy fuel oils, there is still perceived to be a need for secondary particle reduction in certain applications in the future. The next step following a feasibility study conducted in 2005 is to test oxidation and filtering equipment in biofuelled engines during 2006 and 2007.

Oxidation catalysts

Wärtsilä has given priority to making smaller oxidation catalysts more competitive by integrating them into the engine's exhaust gas system, thus eliminating the need for a separate reactor and its support structure.

Methane is not normally classified as a VOC (volatile organic compound) and no air quality limits have been defined for it. Nor, with few exceptions, have legal limits been set for methane levels in power plant flue gases. However, methane is considered to be a factor in global warming and therefore the need for methane reduction could increase in the near future. Removing methane from flue gases is a challenging task. The available methods were studied during 2005 and found to have very limited application. Certain novel techniques will be studied further with a view to their development and Wärtsilä will also allocate resources to certain alternatives at the early development stage.

Monitoring emissions

There have been increasing signs in power plant markets of a shift towards continuous emissions monitoring. In India, for example, it is mandatory for large (> 50 MW) diesel-engine-

driven power plants to use this type of equipment for monitoring NO_x emissions.

Wärtsilä has developed an innovative gaseous emissions monitoring system that is aimed at improving the reliability of emissions monitoring especially at HFO-fuelled diesel plants. Testing of the system started in the autumn of 2005. The first test period (> 500 hours), conducted in 2005, proceeded without problems and a condition inspection performed later did not reveal anything critical except for slight fouling. Following optimization the equipment passed its approval test in 2006 and is now available for commercial trials.

Minimizing water consumption and treating wastewater

Water consumption is also an important environmental consideration in energy production owing to the world's limited reserves of freshwater. Minimizing water consumption and the production of wastewater is an important aspect in the design of Wärtsilä power plants. Compared to many other types of power plant, a closed-circuit radiator-cooled engine-driven power plant is unrivalled in terms of low water consumption. Water consumption is an important factor that should also be considered when evaluating and choosing emissions reduction techniques.

Minimizing the impact of wastewater requires a combination of two factors: minimizing the use of water, and treatment of the wastewater produced. Wastewater treatment is an essential aspect of diesel power plants whereas the wastewater produced by gas power plants largely corresponds in quality to domestic wastewater and is easily treated using existing small-scale methods.

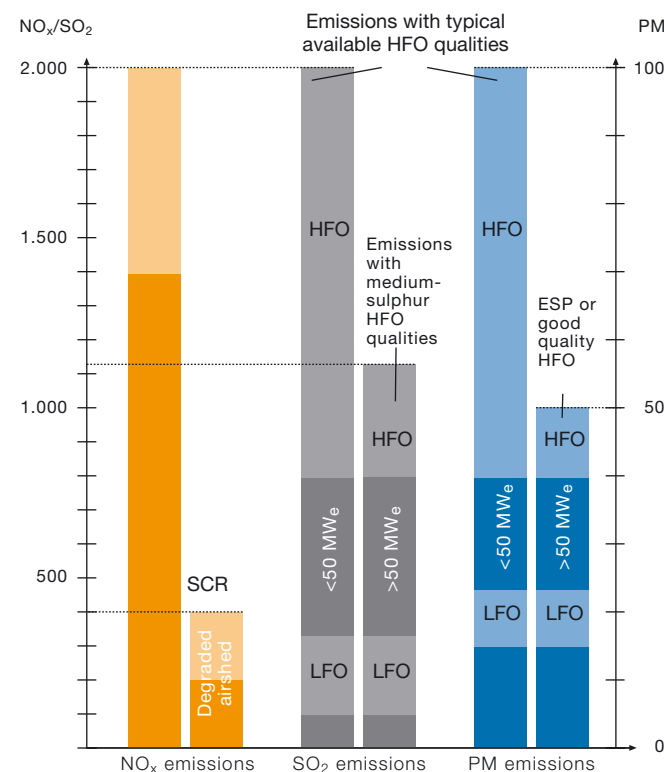
As a result of its development work, Wärtsilä has introduced a compact, reliable and automatic oily water treatment system that is mounted on a single skid-mounted baseframe and can be transported in a normal container. Alternatively, the system can be a fixed installation in a container, which is suitable for outdoor installation. Both options are fast and easy to install at a power plant.

It is likely that the norms governing the quality of wastewater will become more stringent in the future, and therefore treatment systems will be further developed. One project potentially feasible in the short term is a system able to treat both the oily waters and sanitary waste at a power plant. It is also expected that the system will be able to reach considerably lower levels of certain emission components, such as those that affect chemical oxygen demand (COD), compared to existing equipment.

Legislative requirements

A core principle applied by Wärtsilä for years in the development of its power plants is to meet the guidelines of the World Bank. In recent years compliance with these guidelines has become increasingly widespread in power plant projects around the world because more and more financing institutions and export credit agencies have committed themselves through their environmental policies and general agreements to complying with these guidelines. An example of this trend is the Equator Principles document of leading financial institutions in which the signatory parties confirm their commitment to compliance with the World Bank Guidelines in their financing activities.

World Bank Guidelines (1998) and typical emissions of Wärtsilä diesel power plants (shaded); good air quality, if not otherwise stated; emission unit mg/nm³ (dry, 15% O₂)



New generation portable automatic oily water treatment system



World Bank limits for NO_x, SO₂ and particulate emissions in new power plants

Wärtsilä power plants are designed to enable the plant's emission levels to be lower than the World Bank limits using a suitable choice of fuel, assuming that the local ambient air quality does not require stricter limits. Secondary and wet primary emissions reduction methods can be used either to permit the use of poorer-quality fuels, or to enable lower emission levels, or to reach better fuel economy.

The World Bank (WB) and International Finance Corporation (IFC) are revising their guidelines and new guidelines are expected to enter into force during 2007. Stricter emissions limits are likely to be imposed on power plants, which will require thorough analysis of the engines and emissions treatment technology used in these plants to ensure their compliance with the new guidelines. Wärtsilä has already anticipated this trend in the development of its engines and treatment equipment.

European Union stipulations for engine-driven power plants

The general European guidelines governing the permitting of engine-driven power plants in the EU were introduced during 2005 in the BREF document (Reference Document on Best Available Techniques for Large Combustion Plants). This document sets recommended emission limit values for various types of power plant based on BAT (Best Available Technique) thinking in emissions control. BAT is based on the idea of using the best technique available while bearing in mind cost feasibility. Wärtsilä considers the values to be sensible in principle but agrees with the general opinion in industrial circles on the need to evaluate the use of SCR, for example.

Country-specific requirements

Engine and power plant design takes account of emissions limits specific to individual countries. An example is the German TA-Luft atmospheric emissions regulations that have been applied in particular to gas engines owing to their general applicability throughout Europe.

In the USA, the Environmental Protection Agency (EPA) is currently drawing up country-wide emission norms for both diesel and gas engines. The diesel engine norms were released in July 2006 and the gas engine norms could come into effect during 2007.

■ Read more about the Power Plants business in the Business Review section of this report.

EU BREF – BAT levels for diesel and gas engines¹ mg/nm³ (dry, 15% O₂)

	NO _x (as NO ₂)	PM (dust) ²	SO ₂ ²	CO	Hydrocarbons
Diesel engine	No emission level defined	<30 (LFO/diesel) <50 (HFO)	No emission level defined	No emission level defined ⁵	No emission level defined ⁵
Gas engine	20–75 ³	No emission level defined	No emission level defined	30–100 ⁴	<23 Formaldehyde ⁶

Comments:

- ¹ Degree of Consensus: Full consensus between industry and Member States was not reached and hence split views in certain contexts are presented. In particular the deviations involved BAT associated efficiency, certain emission levels as well as the use of SCR for economic reasons.
- ² The use of low-sulphur/low-ash fuel when available is regarded as the first choice BAT.
- ³ Industry claimed that these ranges are not according to the BAT approach but reflect a LAER level (USA) that does not take into account cost aspects. The industry opinion about the BAT emission levels is 90–190 mg/nm³ (dry, 15% O₂) and the local environment and air quality must also be considered when setting the limitations.
- ⁴ Similarly there is a difference in the BAT level for CO emissions. Industry proposes a value of 100 and 110–380 mg/nm³ (dry, 15% O₂) as the BAT level due to fuel related issues. (dry, 15% O₂).
- ⁵ Good maintenance of the engine is regarded as BAT with fuels containing sulphur for liquid-fired engines.
- ⁶ NMVOC emission depends on the composition of the natural gas and hence the possible need for its reduction is case-dependent. The BAT emission level is defined only for formaldehyde.

Emission limits for gas engines in some European countries (dry, 15 % O₂)

	Germany, TA-Luft 2002	Hungary, 1993 ^a	Denmark, 1998	Turkey, 2004
NO _x emissions, ppm	91	91	100	91 ^d
CO emissions, ppm	90	195	150	195 ^d
HC emissions, ppm	17 for formaldehyde	105 as NMHC (as C ₁) ^b	1.050 as THC (as C ₁) ^c	-
PM emissions, mg/m ³ ^e	-	-	-	49 ^d
SO ₂ emissions, ppm	-	-	-	8 ^d

Notes:

- ^a Gas engines ≥ 140 kW
- ^b If the ethane content in natural gas exceeds 5%, the NMHC limit = 175
- ^c Efficiency correction based on the reference efficiency of 30%
→ Limit = efficiency % / 30 × 1.050
- ^d Efficiency correction based on the reference efficiency of 37% (no cogeneration) or 63% (with cogeneration)
→ Limit = efficiency % / reference efficiency % × base limit
- ^e Normalized 0 °C and 101.3 kPa

Boiler plants

Wärtsilä BioPower manufactures and supplies heat and power plants that use biofuels, oil and gas for fuel. Boiler plants operating on biofuels have a capacity of 2–23 MW_{th}. Boiler plants that operate on oil and gas have a unit size of 1 MW_{th}–15 MW_{th}. With these fuels the plants can produce hot water, steam and electricity according to customer needs.

BioPower focuses on biomass-fired heat and power plants, which it supplies to selected market areas. Deliveries are currently in progress in Scandinavia – principally Sweden – as well as Central Europe and Russia. Wärtsilä's patented BioGrate technology enables the power plants to use various wood-based biofuels such as bark, sawdust, wood chips and also peat as their source of energy. The company's BioEnergy (BE) plants produce hot water and steam, whereas BioPower (BP) plants produce heat and electricity. At present 91 BioEnergy and BioPower plants are in operation around the world.

Energy production

Wärtsilä's bioboilers are designed for wood-based fuels that are typically generated as by-products from forest industry processes.

Biofuels have the following distinctive characteristics:

- High and variable moisture content, up to 65% m/m
- Variable heat value on arrival at the plant, at its lowest only 5 MJ/kg
- Fairly low, variable energy density: 0.5 MWh/m³ < q < 1.2 MWh/m³
- Low sulphur content < 0.05% m/m dry
- Low ash content 0.5–3% m/m dry
- Low chlorine content < 0.05% m/m dry.

Biopower 2–7 CHP, CEX and C products

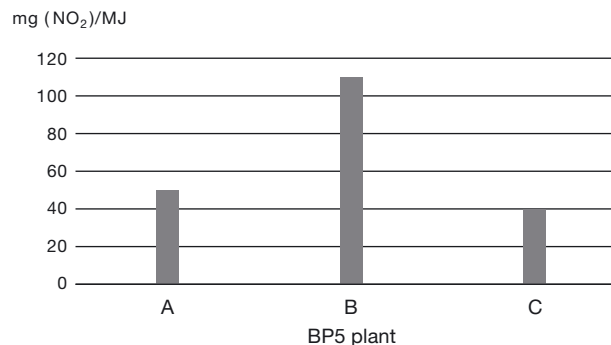
In BP plants, electricity is generated using a steam turbine generator. The combined heat and power (CHP) generation process optimizes production to the heat requirements with electricity being generated as a by-product. Heat is produced by condensing the steam after the turbine. When the need for heat and process steam is not enough to condense all the steam required for electricity production, the process steam can be utilized before expansion in the turbine (CEX products) and most of the steam is condensed in a low-pressure condenser without being used. When only electricity is produced (C plants), the steam is condensed at low pressure and temperature without using the heat, a process that maximizes electricity production in the steam cycle.

Given what is financially and technically feasible in each case, BP plants are dimensioned for relatively low steam pressure and temperatures (23–52 bar and 450–480 °C), giving a total energy efficiency of 85–86%. If only electricity is required, the energy efficiency is 25%. In this case the low-pressure exhaust steam from the turbine is then condensed using either air or water. The product portfolio has been expanded around the BP5 plant with the lower-capacity BP3 plant and higher-capacity BP7. The main operational values of the BioPower plants are given in the table opposite.

BioPower, BioEnergy and oil/gas boilers: deliveries completed or in progress 2006

Products	MW _{th}	MW _e
BioEnergy	20	
BioPower	55	16
Oil/Gas	176	

Specific emissions of nitrogen oxide per fuel energy unit



Flue gas emissions of bioboilers

The flue gas emissions from bioboilers consist mainly of NO_x, SO₂, CO, CO₂ and particle emissions. Since the sulphur content of a clean biofuel is low, and the plant's CO₂ emissions are assumed to derive from the renewable carbon cycle, boiler plant decisions concentrate on emissions of dust, NO_x, and CO. The most typical values of these emissions in the BE and BP plants delivered are as follows:

NO ₂	50...70...90...120 ¹	mg/MJ _{fuel}
CO	100...150	mg/MJ _{fuel}
Particles	15, 50, 250, 500 ²	mg/m ³ _{n, O₂=6%}

¹ Value depends on the nitrogen content of the fuel

² Value depends on local emissions regulations

Reducing nitrogen oxides in flue gases has been the subject of continuous product development. Phasing the injection of combustion air into the boiler creates combustion conditions in the combustion chamber that reduce the nitrogen compounds in the fuel to nitrogen molecules (N₂), which in turn reduces NO_x emission levels to around 60% compared to non-phased combustion air injection. If this is still not enough, an emulsion of ammonia and water, for example, can be fed into the combustion chamber, which can further reduce emission levels to below 40% of the original. The figure shows measurement results from three BP5 plants.

Air emissions from oil- and gas-fired boilers

Air emissions from oil and gas boilers are reduced using efficient combustion technology (a modern burner with an appropriate boiler structure) and with precise, advanced regulation of

the combustion air. The following are typical emission levels from boilers fired using light fuel oil and gas:

- CO < 20 mg/MJ,
- NO_x emissions < 60 mg/MJ,
- SO_x < 10 mg/MJ
- C_xH_x < 7 mg/MJ,
- Particle emissions < 10 mg/MJ.

Noise emissions

Noise disturbs those in the neighbourhood, and increasing attention is being paid to the problem of noise when designing structures. Noise emissions within the plant are for the most part below 85 dB(A) at a distance of one metre from machinery, and outside below 50 dB(A) at a distance of 50–100 metres from the wall of the plant. To meet the strictest noise emission requirements, tailored solutions can be implemented that meet lower noise level limits.

Ash, water and lubricating oil

Ash is a typical by-product of BE and BP plants. The solid matter in biofuel includes 1–3% of inorganic substances. The fuel also often contains sand and soil and consequently the amount of solid matter, ash, remaining after combustion can actually total more than 5% of the dry solid matter in the fuel fed into the boiler. Ash is mainly recovered in two separate systems. Bottom ash is recovered after it has been extinguished (wet) under the grate. Fly ash is recovered dry either from the multicyclone or the electrostatic precipitator, depending on the cleaning method, and it can be kept separate from the grate ash.

The calculated water consumption varies in BP (CHP) applications running on typical fuels between 15 g/MJ_{fuel} and 25 g/MJ_{fuel} provided there is no steam consumption in the process. Correspondingly the calculated water consumption in BE plants relates principally to ash treatment unless water is consumed elsewhere in the process. Consumption varies typically in the range 3–7 g/MJ_{fuel} depending on the ash content of the fuel. In the BP CEX plant water consumption can also vary depending on how much of the process steam is fed back as condensate to the power plant. In the BP C plant water consumption is also affected by the method used to condensate water in addition to the fuel and steam boiler processes.

In BP and BE plants lubrication oil is used in the fuel handling systems and in the grate's hydraulic system. Roughly 500 l/a of oil is needed. BP plants also consume roughly 500 l/a of lubrication oil in the turbine.

Compliance with legislation

Wärtsilä's BioEnergy and BioPower plants are designed to meet all local emission requirements. These are usually set for:

- Non-combusted gases such as CO
- Nitrogen oxides
- Sulphur oxides
- Particle emissions
- Noise emissions
- Water separated by flue gas condenser
- Condensate from the steam boiler.

Power plant type	Steam values	El. power	Thermal power	Other data
bar(a)/°C	MW _e	MW _{th}		
BP 2 DH	35/480	2.1	8.0	90/50 °C DH water
BP 2 CEX	35/480	1.6–2.5		max. 11 t/h 2 bar (a) process steam
BP 2 C	35/480	2.7	-	condensate cooling with 25/35°C circuit water
BP 3 DH	35/480	2.7	11.0	90/50 °C DH water
BP 3 CEX	35/480	2.1–3.4		max. 15 t/h 2 bar (a) process steam
BP 3 C	35/480	3.5	-	condensate cooling with 25/35°C circuit water
BP 5 DH	50/480	3.7	13.0	90/50 °C DH water
BP 5 CEX	50/480	4.0–5.3		max. 17 t/h 2 bar (a) process steam
BP 5 C	50/480	5.4	-	condensate cooling with 25/35°C circuit water
BP 7 DH	62/480	5.1	17.7	90/50 °C DH water
BP 7 CEX	62/480	5.3–7.3		max. 24 t/h 2 bar (a) process steam
BP 7 C	62/480	7.4	-	condensate cooling with 25/35 °C circuit water



Environmental performance

Continuous improvement of environmental performance in the company's operations requires the organization to work systematically year on year. In developing its operations, processes and products, Wärtsilä endeavours to use the latest technology available for improving efficiency in materials and energy consumption, and for reducing and managing emissions and wastes.

Wärtsilä's principle is to apply certified Environmental Management Systems based on ISO 14001 in all Group companies. The company's environmental system focuses especially on compliance with legal requirements, identifying and reducing environmental aspects, impacts and risks, training personnel and clearly defining their responsibilities, full documentation of activities and procedures, action in emergencies, and continuous improvement of environmental performance. At the end of 2006 37 Wärtsilä companies had operated with a certified environmental management system. These certified environmental management systems cover roughly 88% of Wärtsilä's total workforce.

Wärtsilä's main environmental aspects relate to the use of materials and natural resources, energy consumption, and emissions and wastes generated by the company's operations. The company's subsidiaries set their own goals and targets covering significant environmental aspects of their operations.

Energy

Total energy consumption

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

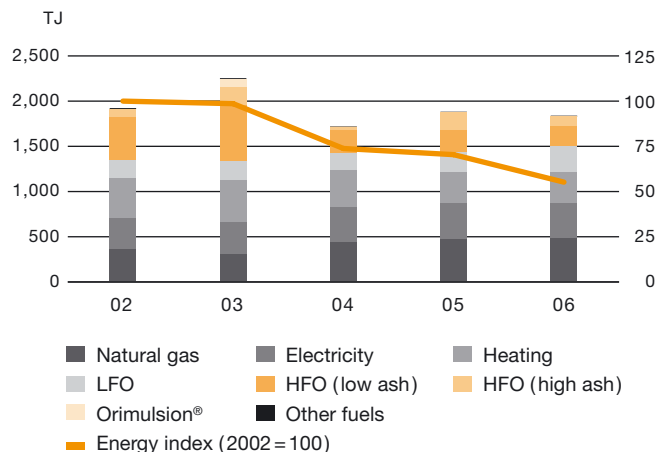
Electricity

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

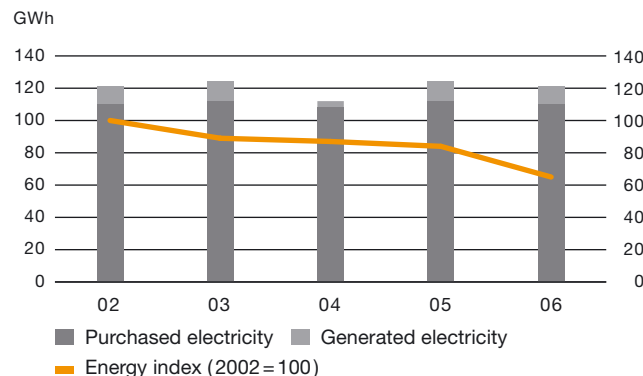
Heat

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

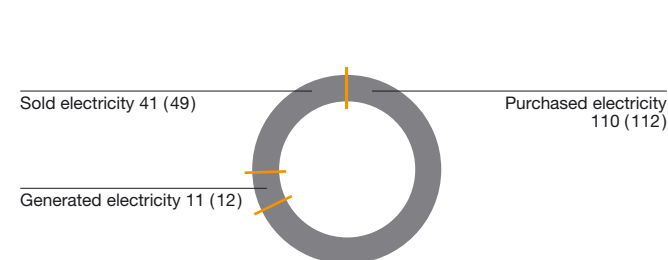
Annual energy consumption



Annual electricity consumption



Electricity balance 2006, GWh



Water

The water consumed by Wärtsilä can be divided into two categories: domestic use and cooling use. Domestic water is used mainly for sanitary purposes and by industrial equipment such as machine tools and washing machines. Some factories also use domestic water to produce moulds.

Heat emissions into water systems arise from engine cooling and process cooling water. Wärtsilä companies use water from the local watercourse for their engine and process cooling needs. In such cases, the cooling water system is kept separate so that only heat is released into the natural water system. Wastewater is seweraged and piped to the local wastewater treatment plant. If effluent is not suitable for sewage treatment, it is taken away for appropriate treatment, for example to a special treatment plant for hazardous wastes.

Emissions to the air

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

Air emissions are mainly caused by test runs and the painting of completed engines or other Wärtsilä products. Test run emis-

sions consist of nitrogen oxides, sulphur dioxide, carbon dioxides and particles, as well as small amounts of other emission components. The painting of engines and other Wärtsilä products generates VOC (volatile organic compounds) emissions.

Monitoring environmental impacts

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

- Participation in the monitoring of air quality with other local stakeholders
- Measurement of air emissions
- Charting of noise levels
- Periodical effluent analysis
- Soil analysis
- Dispersion analyses and bio-indicator surveys.

Compliance

The operations of Wärtsilä's manufacturing companies require a valid environmental permit. Wärtsilä companies have the required environmental permits, the terms of which are generally met. Incidents of non-compliance are described below.

Environmental disturbances and complaints

The number of disturbances, complaints and incidents of non-compliance are presented in the figure. Reported disturbances cover incidents in which the Wärtsilä company concerned has usually been obliged to report the disturbance to the authorities.

The following main environmental disturbances occurred at Wärtsilä's business locations in 2006:

- 1 wastewater leak
- 5 fuel leaks
- 2 lubrication leaks
- 2 oily water leaks
- 2 chemical leaks
- 1 unnecessary fire alarm
- 1 emissions of dust
- 1 incorrect waste classification
- 1 disturbance in system regulating exhaust gas channel
- 1 insufficient performance of wastewater treatment system
- 1 emission of ash caused by standby heat system

All the above disturbances were investigated and appropriate corrective action was taken in each case.

The main reason for complaints made by occupants of neighbouring sites was noise. All complaints were investigated and appropriate corrective action was taken wherever necessary.

Cases of non-compliance

There were no cases of non-compliance at Wärtsilä operating locations during the period.

Non-compliance cases presented in previous reports

Wärtsilä Finland Oy has received a new environmental permit.



Waste management

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

All Wärtsilä companies sort their waste according to local municipal regulations. However, generally speaking the main sorting categories are: waste to be incinerated, crude waste for landfills, clean cardboard, and waste paper. Waste wood, scrap metal and metal swarf are collected separately. Only coarse waste and in some cases waste wood are removed for landfill disposal. Other wastes are used either as raw materials or for energy.

Waste management in Wärtsilä has four aims:

- To reduce the amount of the waste generated in Wärtsilä processes
- To use the waste as a material
- To use the waste as energy
- To dispose of the waste in an environmentally sound way.

Environmental costs

Environmental capital expenditure and the operating costs related to environmental protection are difficult to separate from normal operating costs in our operating environment. It is equally difficult to define capital expenditure as an exclusively environmental investment or as a machine or equipment investment in the production process.

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

Wärtsilä real estate and environmental responsibilities

The real estate that Wärtsilä owns or leases is mainly located in urban areas. The company is not aware of any properties that are situated in areas where biodiversity could be endangered.

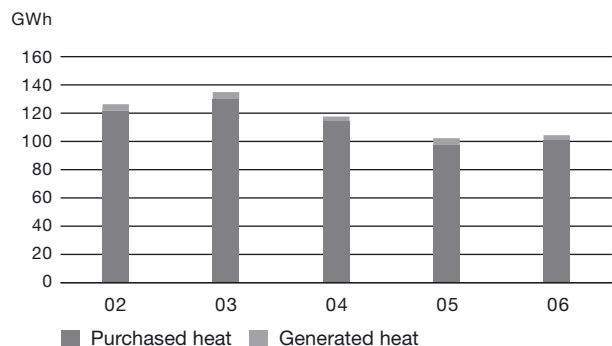
Environmental risks and liabilities are identified and reviewed as a part of overall risk management. In Wärtsilä's operations, potential liabilities are primarily related to the company's real estate. Environmental liabilities are systematically scrutinized in

conjunction with every acquisition or sale of real estate. Wärtsilä has recognized certain cases where potential environmental liabilities may exist but these are not expected to have a significant financial impact on Wärtsilä.

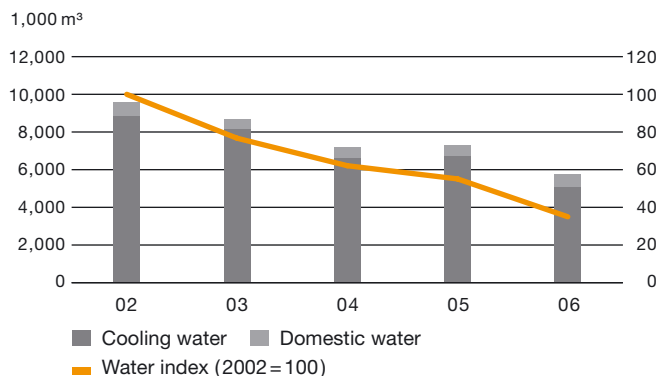
Environmental capital expenditures and operating expenses

MEUR	2006	2005	2004	2003	2002
Environmental capital expenditures	1.8	2.5	2.8	2.1	1.8
Environmental operating expenditures	3.5	3.0	2.8	4.9	4.0

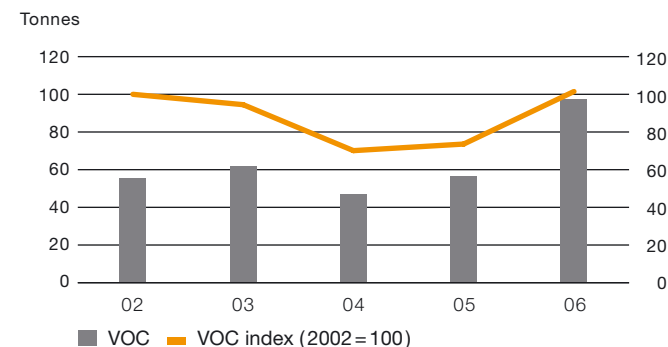
Annual heat consumption



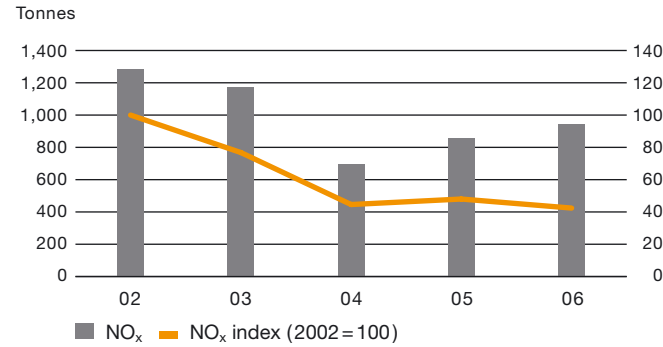
Annual water consumption



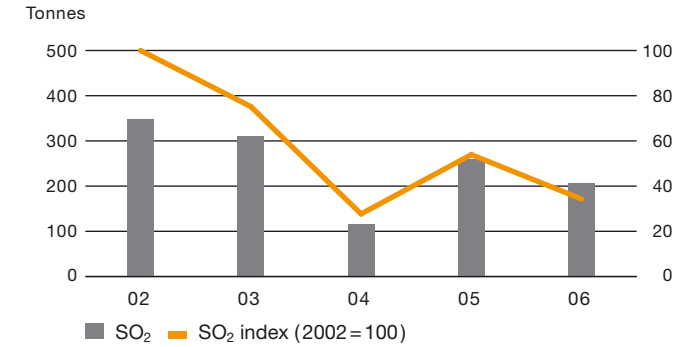
Annual VOC emissions



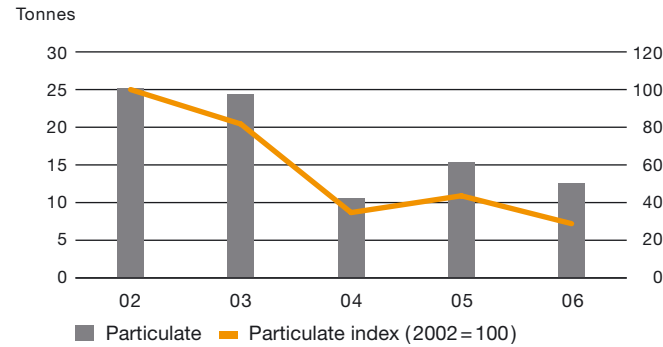
Annual NO_x emissions



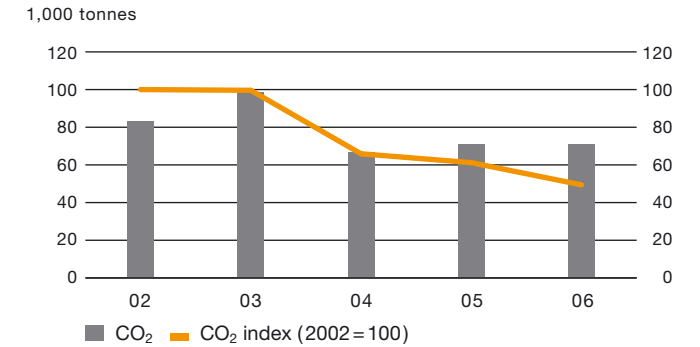
Annual SO₂ emissions



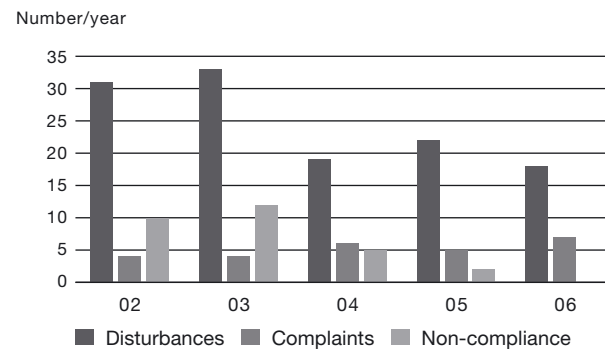
Annual particulate emissions



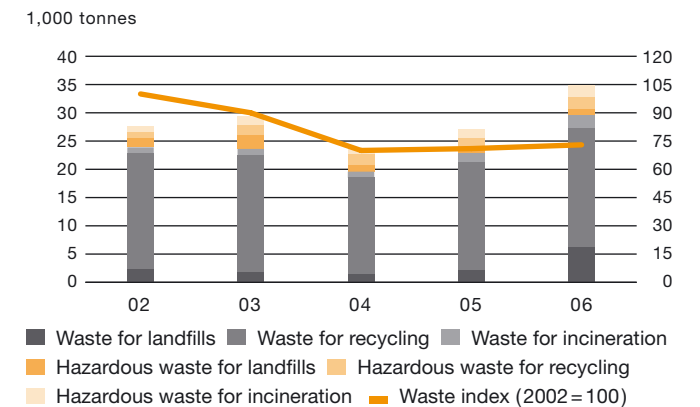
Annual CO₂ emissions



Disturbances, complaints and non-compliance



Annual waste



Personnel and social performance

Wärtsilä's strategy defines the central objectives for social performance in Wärtsilä's operations. Wärtsilä's intention is to act as a good corporate citizen, to offer interesting, motivating and safe jobs to its employees, to develop its employees' professional skills and to improve supply chain management.

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

Wärtsilä strives to offer its employees an interesting and exciting workplace where openness, respect, trust and equal opportunities prevail. The company seeks to create a learning framework that enables its employees to continuously develop their skills and competences both on the job and through separate in-house and external training programmes.

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

The Group applies only such product development and manufacturing processes and quality assurance methods that minimize health and safety risks related to the use of its products and services. Suppliers are an important part of the total supply chain of the Group. Therefore Wärtsilä gives considerable attention to the long-term development of common processes with its suppliers. This includes common design activities, joint development

of manufacturing processes, and efficient information exchange guided by long-term agreements.

Structural changes in the company during 2006

Acquisitions

Wärtsilä acquired the Norwegian company Aker Kvaerner Power and Automation Systems AS (AKPAS) from Aker Kvaerner. AKPAS supplies power and automation systems for oil, gas, offshore and industrial applications. The acquisition added 135 employees to Wärtsilä's total workforce.

Wärtsilä acquired the entire business and all subsidiaries of Total Automation Ltd, a Singapore-based public marine automation company with operations in Singapore, Dubai, France, Great Britain and China. The acquisition added 571 employees to Wärtsilä's total workforce.

Wärtsilä acquired the production machinery and business of Diesel Technology Solutions BV (DTS), owned by Stibbe Management BV, in Zwolle, the Netherlands. The acquisition added 75 employees to Wärtsilä's total workforce.

Wärtsilä acquired the German service company INTEC Injektortech GmbH. Based in Hamburg, this company specializes in the installation and servicing of fuel injection equipment for marine engines. The acquisition added 17 employees to Wärtsilä's total workforce.

Wärtsilä acquired the entire business of the Swedish company Stockholm Fartygsreparationer AB, which provides a wide range of ship repair services along the east coast of Sweden. Stockholm Fartygsreparationer AB's 10 employees joined Wärtsilä.

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

Target	Timetable	Status
Ensuring compliance with Code of Conduct, formulation of control procedures and reporting practice	2005–2007	In 2006, training of various personnel groups started, reporting practice formulated.
Introduction of occupational health and safety systems in all subsidiaries	Continuous	At the end of 2006, 30 companies had an OHS system in operation, of which 23 were certified according to OHSAS 18001.

Wärtsilä acquired the German ship design company SCHIFFKO, taking on another 25 employees as a result. SCHIFFKO specializes in designing containerships and research and offshore vessels.

Joint ventures

Wärtsilä and the Estonian BLRT Grupp established a second joint marine service company for the Baltic market. Wärtsilä holds 51% in the new company and BLRT Grupp 49%. Called Wärtsilä MLRT Services Klaipeda UAB, the new company services and repairs ships, ship engines, gears, propellers and other ship machinery. Wärtsilä BLRT Services Klaipeda UAB operates out of Klaipeda, Lithuania, where it has 70 employees.

Wärtsilä Qiyao Diesel Company Ltd (Shanghai), a factory set up jointly by Wärtsilä and the Chinese Shanghai Marine Diesel Engine Research Institute (SMDERI), was inaugurated in summer 2006. The factory produces diesel generating sets under the Auxpac brand name for use as auxiliary engines in marine vessels.

Wärtsilä, China Shipbuilding Industry Corporation (CSIC) and Mitsubishi Heavy Industries (MHI) set up a joint venture for manufacturing large low-speed engines in China. CSIC holds 50% in the new company, Wärtsilä 27% and Mitsubishi 23%. Production is planned to start during the fourth quarter of 2008. The company will be called Qingdao Qiyao Wärtsilä MHI Linshan Marine Diesel Co Ltd (QMD).

Internal changes

The Ciserv marine service and repair group was integrated within Wärtsilä's service business from 1 May 2006 and the entire business was renamed Wärtsilä Services.

Personnel

Wärtsilä's personnel mainly comprises full-time employees with permanent employment contracts. The number of temporary and part-time employees is relatively low. In addition to direct employment, Wärtsilä also uses subcontractors in its factories and units, accounting for altogether 1,260 man-years of work in 2006. The total headcount increased by 2,338 employees during the year as a result of both acquisitions and recruitment. The largest increase in personnel took place in the Services business. Geographically, the number of employees grew most of all in Europe and Asia-Pacific countries. The increase in the units in Finland during the year was 332 employees.

Change in number of employees per business

		Change
Services	8,539	+1,339
Ship Power	2,469	+499
Power Plants	838	+77
Engine Division	2,187	+395
Others	313	+28

Personnel in figures 2006

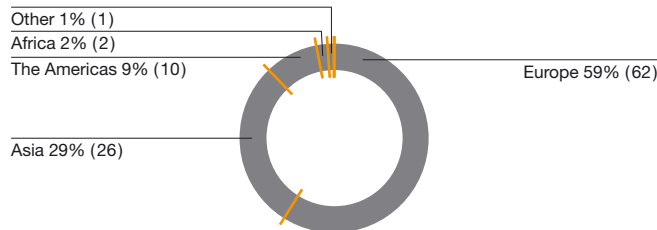
Number of employees at 31 Dec. 2006		14,346
Number of nationalities		87
Change in number of employees (net employment creation)		+1,277
Average age of employees	years	39.2
Total payroll costs	MEUR	510.9
Aggregate coverage of different bonus schemes	%	53
Development discussions held annually	%	60

In many European countries almost all Wärtsilä employees are covered by collective bargaining agreements. The number of employees belonging to a trade union varies between 70% and 100%. These figures vary considerably in other countries outside Europe and therefore any average figure for the Group as a whole would not reflect the real situation.

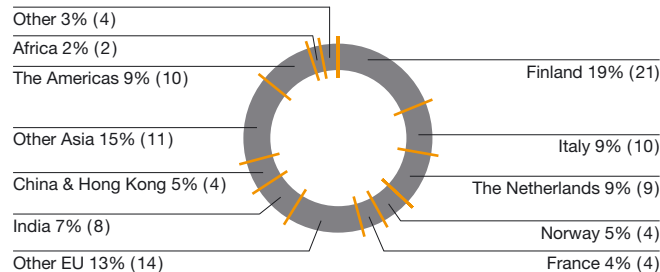
Personnel management in 2006

The goal of Wärtsilä's human resources strategy is to support implementation of the company's business targets by ensuring that the businesses have the requisite skilled and motivated people at their disposal. Continuous development of skills, performance management, feedback and motivating remuneration are central to Wärtsilä's human resources strategy and basic requirements of good business performance in a global operating environment. Uniform business processes and corporate development are further promoted by harmonizing and enhancing

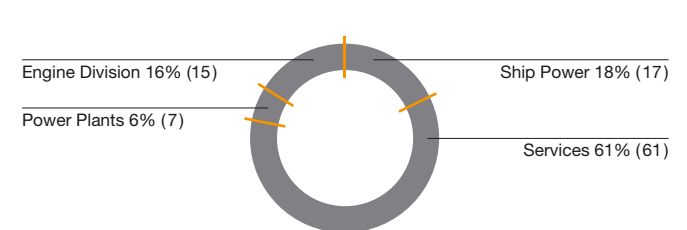
Personnel by market area



Personnel by country



Personnel by businesses



personnel management processes across national and organization boundaries.

Developing a single organizational culture, and a uniform internal and external corporate image, is an ongoing process in Wärtsilä. Major actions have included strengthening customer-centricity and enhancing the Services business to meet the business needs of the company's customers more effectively.

Continuous development of personal skills

During 2006 Wärtsilä gave particularly emphasis to effective induction programmes for new employees and to adopting new and more extensive personnel development and learning schemes. Learning at work, mentoring, and schemes designed to enable knowledge and skills transfer from experienced to younger employees, are further additions to the professional and general training programmes produced by Wärtsilä's global training network. Wärtsilä also developed and harmonized its training schemes for supervisors and managers in all geographical areas during the year.

Wärtsilä encourages its employees to develop a varied working career through international job rotation, and the company also provides opportunities for them to do this. Employees' own career aims and aspirations are discussed in annual development discussions. The company reviews its successor plans for key positions yearly and charts its management development needs to ensure the continued availability of the right resources for these key positions in the future.

At the end of the year the company also launched a new programme to recruit young business professionals for Wärtsilä. A dozen or so young people will start this 18-month programme in March 2007, during which they will work in four business units, each for roughly 3–6 months at a time.

Clear targets, performance assessment and feedback for all

Each Wärtsilä employee is required to know and understand Wärtsilä's business strategy and its goals, the targets set for their own unit, and the main target areas related to their own work. The annual development discussion is of central importance to performance management within Wärtsilä. The discussions are used to agree on personal targets, to assess their implementation, and to plan and agree on any development action necessary. Wärtsilä's aim is to engage in development discussions with all its employees. A tool for documenting development discussions was introduced during 2006 and this will be further developed during 2007.

Personnel satisfaction developed positively

Wärtsilä conducted a Group-wide employee satisfaction survey in January 2006. Employee satisfaction has improved in all the areas measured by the survey, and the percentage of respondents was also clearly higher than for the previous survey. Particularly encouraging were clear improvements in the areas for development highlighted by the previous survey – greater clarity of strategy and goals, and better internal communication. Other Wärtsilä strengths indicated by the survey were strong personnel

motivation and commitment to the company, fair treatment, and pride in the company's products and expertise.

Areas for further development are better organization of work responsibilities, more clearly defined roles and tasks, and daily co-operation and communication. The next employee satisfaction survey will be conducted in March 2007.

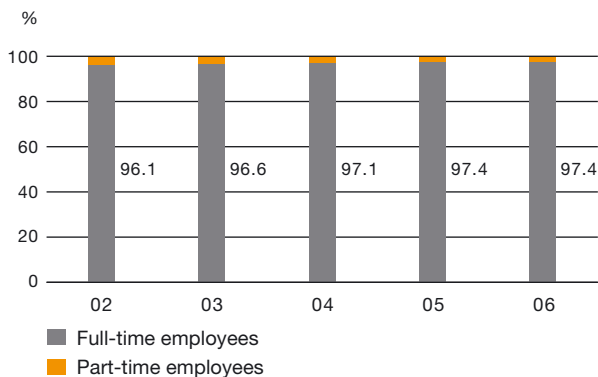
Challenges for personnel management and priorities in 2007

The company's personnel management processes will be further developed in the light of the trends evident during 2006. One of the main priorities will be to develop professionals skills. Measures will also be continued with a view to equipping future senior managers with the skills necessary for developing and leading their business and for managing their team members and organizations. Business growth requires having the right human resources – Wärtsilä wants to be seen as a strong potential employer among jobseekers and at the same time to offer opportunities for personal development to those already working for the company.

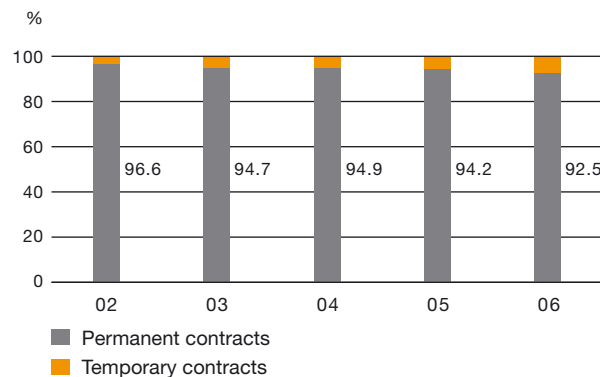
Training

The aim of Wärtsilä's training schemes and personal development is to develop, maintain and update the skills and competences needed to reach the company's strategic objectives. Critical success factors for Wärtsilä are having the correct competences at the right time and the ability to adjust to continuous change in the business environment. Employees are given training all the time at all organizational levels: from induction training

Full-time/part-time employees



Permanent/temporary employees



Training days

Days/employee	2006	2005	2004	2003
Managers	3.3	3.0	2.5	3.2
Technical employees	4.5	3.5	3.5	3.5
Administrative employees	2.8	3.0	2.4	2.2
Blue-collar employees	2.4	2.3	3.3	2.6

for new employees, to training for the company's top executives. Wärtsilä employees attend on average 3.3 training days a year. The number of training days, altogether 42,509, indicates the broad scope of this function. Wärtsilä's training organization continuously holds internal courses for personnel. Most of these are tailored to the specific needs of departments.

Wärtsilä's management training path offers supervisors and senior managers training at all levels of the organization. The training programmes also emphasize the importance of the company's values in everyday management. Wärtsilä additionally uses the training programmes and facilities offered by universities and various professional training institutions. It also supports studies by individuals aiming to gain a professional or academic qualification.

Consulting and informing in Group companies

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

have an OHS committee with representatives from all personnel groups.

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

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

Employees are able to have a direct impact on the company's operations and their development by making suggestions. Each Wärtsilä employee can offer suggestions for improvement in operations through either the continuous improvement (CI) process or by submitting private initiatives. CI proposals are discussed jointly and need a common decision to be put into effect. Private initiatives are evaluated by experts within the company and, if found to be feasible, are put into effect.

Wärtsilä encourages its employees to be innovative by granting an annual Technology Award, either to an individual or to a team, for the best technical innovation of the year. The award criteria are that the invention must be innovative, environmentally sound, representative of leading technology, improve a product or process, and offer potential for cost savings. In 2006

the award was granted to two gas engine teams; the first of these develop an adaptive load-balancing system for large gas engines, and the second a control and regulation system for gas engines.

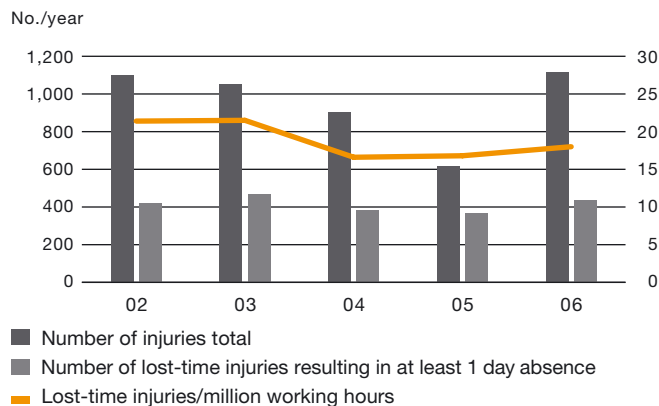
Occupational health and safety

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

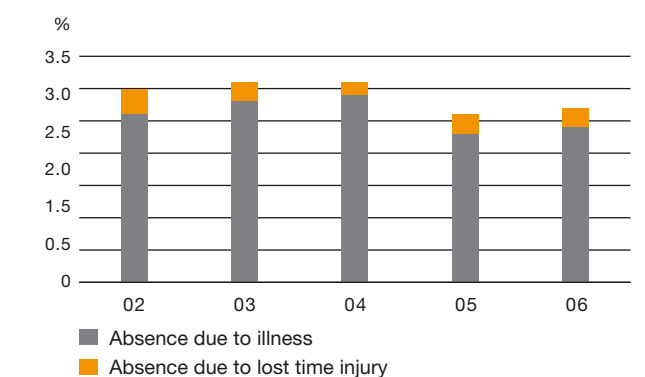
The objective of Wärtsilä's occupational health and safety policy is to prevent and manage health and safety risks to personnel and stakeholders. In addition to the management system, Wärtsilä companies apply OHS programmes required by local legislation, which are normally implemented in OHS committees consisting of representatives of the companies' management and personnel. Accidents are recorded and investigated in the manner required by local legislation. Altogether 65% of Wärtsilä companies have an occupational health and safety committee.

The indicators used to measure occupational health and safety performance include the number of accidents, the amount of absence due to sickness and the frequency of accidents.

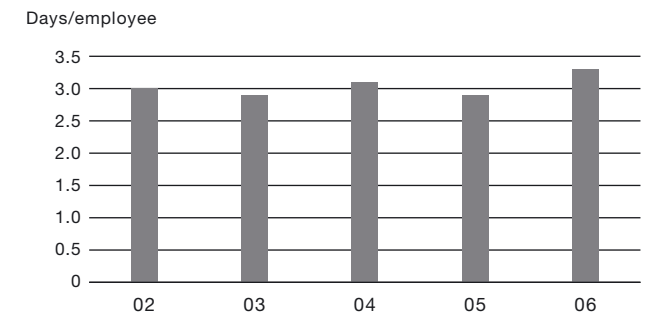
Injuries



Absence rate



Training days



There were no fatal injuries in Wärtsilä's units during the review period.

Human rights

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

Wärtsilä's employees represent 87 different nationalities, and the company supports equal treatment of all its employees irrespective of race, colour, nationality, gender, age or religion. The company's employees are selected on their qualification and competence for each specific job. Programmes and instructions related to promoting equal rights are applied in the subsidiaries.

Wärtsilä supports the work-related rights defined by the International Labour Organization (ILO) and therefore works to ensure there is freedom of association and the right to collective bargaining in the company. In those countries where local legislation does not recognize these rights, Wärtsilä endeavours to give employees other channels for expressing their opinions. Wärtsilä does not accept the use of forced labour or child labour in any form.

Wärtsilä is unaware of any cases of breach of human rights, discrimination, infringements of rights at work, or the use of forced or child labour.

Since Wärtsilä expects its partners and suppliers to act in compliance with its Code of Conduct, similar measures will also apply to them. The company sets common requirements for its suppliers and regularly monitors conformance with these requirements through numerous performance indicators and audits. All the company's main suppliers are required to comply with Wärtsilä's requirements in order to gain Approved Supplier status.

Impact on communities

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

Case Brazil: activities that benefit all employees

Grupo Grãos is a voluntary group of employees established in 2003 to support voluntary activities by employees of Wärtsilä Brazil. The group's committee was awarded funds from Wärtsilä's 2006 budget for voluntary campaigns and work. The group's aim is to promote awareness of social responsibility and commitment to this ethic among Wärtsilä's business partners, suppliers, customers, employees and their families. This is done by advertising the voluntary work and its schemes, the purpose of which is to promote training and to help charitable organizations in the work they do.

To reach this goal, the group's work and the budgeted funds were targeted at one small activity in which the employees felt they could be of benefit, at the same time motivating them further in voluntary work. The activity chosen was the Centro Comunitário Irmãos Kennedy community centre in Vila Kennedy, which is attended by 120 children. The Wärtsilä funds were used to buy materials and to pay for outside employees to handle tasks that the voluntary employees could not undertake.

The action plan for 2006–2007 includes painting, cleaning, marketing voluntary work to new employees in the company, and forging social responsibility co-operation agreements with customers, suppliers and other companies.

Suppliers

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

The company took a new system into use during 2006 for managing information related to supplier selection, evaluation and performance. At the same time more than 100 purchasing organization employees were given training in supply chain management issues. Wärtsilä regularly conducts supplier evaluations. These are divided into three categories: pre-assessment, auditing, and performance review. A pre-assessment is made of potential new suppliers before the supplier relationship begins. Audits are conducted on new suppliers and on suppliers whose performance does not meet Wärtsilä's requirements. Performance reviews are performed to solve a single deviation from requirements. Altogether 23 supplier audits were performed last year.

In 2006 the Suppliers Days event was held in Helsinki. The main theme of the meeting was a programme called "Outstanding Relations", the aim of which is to create long-term relations between Wärtsilä and its suppliers. The event was attended



by 150 suppliers from around the world. “Supplier of the Year” awards were presented during the seminar to ABB Oy, Electrical Machines, JTK Power Oy, Geislinger GmbH, Auramarine Oy and M. Jürgensen GmbH & Co.KG.

Preventing corruption and bribery

Wärtsilä’s Code of Conduct expressly prohibits the company and its employees from accepting or offering any kind of benefit considered to be a bribe. Only normal business gifts of nominal value may be given or accepted. The instructions make it compulsory to comply with local anti-bribery provisions and internationally recognized anti-corruption and anti-bribery principles, and to report any cases of bribery. The company has organized extensive training for its personnel, particularly the sales organization, on anti-corruption principles and on the instructions contained in its Broker Directive.

The Vaasa appeal court in Finland upheld the Vaasa district court’s ruling in the case of suspected bribery referred to in the previous Sustainability Report. The Vaasa appeal court ruled that the Wärtsilä employee in question was innocent of all charges brought against him. The prosecutor in the case has lodged an appeal with the Supreme Court.

Political lobbying

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

Competition regulations

Wärtsilä has a compliance programme for managing risks relating to competition law, and the company’s corporate management is strongly committed to implementing this programme. Wärtsilä’s various subsidiaries conducted reviews of compliance with competition regulations when formulating the programme and during the course of mergers and acquisitions. No infringements of competition regulations were identified. The programme documentation includes a manual of competition law, which provides information about competition regulations and instructions for the company’s internal procedures. Wärtsilä has also arranged training in competition law for key personnel.

Product liability

Wärtsilä’s occupational health and safety policy defines procedures for ensuring product safety. Further information about issues relating to product safety is given in the Wärtsilä and Sustainability section of this report.

Customer satisfaction

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

In its most important market areas Wärtsilä arranges Customer Days for existing and potential customers. These days are used to review subjects of topical interest and to discuss existing and future needs and challenges. In 2006

the Power Plants business held 13 customer events and seminars with a total of more than 175 participants. Power Plants also participated in 19 international conferences. Ship Power attended 35 international and national maritime exhibitions and 20 conference. A total of 50 customer seminars were organized by the Ship Power business.

In 2004 Wärtsilä introduced a Customer Relationship On-Line (CROL) system for measuring the company’s sales, delivery and service performance in individual projects. Part of the system requires Wärtsilä to make a self-assessment, the results of which are compared with feedback from customers. This enables action to be taken to rectify any issues while projects are still in progress. The management of the business units regularly monitor customer satisfaction and decide on any development measures necessary.

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

Altogether 1,477 such questionnaires were received from customers in 2006, compared to 1,167 in 2005.

The average results for the customer satisfaction survey

	2006	2005	2004
Ship Power	7.4	7.2	7.5
Services	7.6	7.7	7.8
Power Plants	7.9	8.1	8.0



Summary of key figures

Performance indicators ¹	2006 ⁶	2005 ⁴	2004 ⁵	2003 ³	2002 ²
Economic					
R&D expenses (EUR million)	84.8	70.1	73.4	70.2	88
Environmental investments (EUR million)	1.80	2.54	3.05	2.23	1.83
Environmental operating expenses (EUR million)	3.51	3.05	4.71	6.93	6.02
Environmental					
Total energy consumption (TJ)	1,837	1,881	1,723	2,251	1,923
• Electricity consumption (MWh)	120,782	123,857	112,324	112,806	106,617
• Heat consumption (MWh)	104,381	102,265	117,684	134,944	126,294
• Light fuel oil (t)	6,825	5,232	4,474	4,862	4,866
• Heavy fuel oils (t)	8,147	10,743	7,169	20,146	13,552
• Natural gas (t)	10,300	10,079	9,625	6,785	17,611
• Other fuels (t)	145	135	188	146	242
• Orimulsion® (t)	0	0	0	3,275	232
Total water consumption (1,000 m ³)	5,794	7,328	7,207	8,710	9,570
• Consumption of domestic water (1,000 m ³)	739	626	606	576	727
• Consumption of cooling water (1,000 m ³)	5,055	6,702	6,601	8,134	8,843
Emissions of nitrogen oxides (t)	945	859	1,174	696	859
Emissions of carbon dioxide (t)	71,092	70,771	66,586	98,419	83,232
Emissions of sulphur oxides (t)	206	260	117	310	348
Particulates (t)	13	15	11	24	25
VOC (t)	97	57	47	62	55
Non-hazardous waste (t)	29,513	22,845	19,587	23,608	23,887
Hazardous waste (t)	5,308	4,296	3,913	5,835	3,644
Social					
Training days (days/employee)	3.3	2.9	3.1	2.9	3.0
Number of lost-time injuries	435	370	382	467	422
Lost-time injuries (number/million working hours)	18.0	16.8	16.6	21.5	21.4
Absence rate (% of total working hours)	2.70	2.57	3.13	3.04	2.92

¹ The operational performance data in this report has been compiled from the economic, environmental and social records of the Wärtsilä companies. Whilst every effort has been made to ensure that the information is neither incomplete nor misleading, it cannot be considered as reliable as the financial information published in the Financial Review.

² The 2002 figures include the second-phase companies, which are presented in the previous report.

³ The 2003 and 2004 figures include the third-phase companies, which are presented in the previous report.

The third reporting phase includes all Wärtsilä companies except those mentioned in the Report Scope section.

⁴ The data for 2005 include all Wärtsilä companies except those mentioned in the Sustainability Report 2005 Scope section.

⁵ The accounting principle for calculating research and development costs was changed in 2004.

⁶ The data for 2006 include all Wärtsilä companies except those mentioned in the Report Scope section.

Report scope

Wärtsilä's Sustainability Reporting 2006 is prepared according to the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines 2002.

Wärtsilä reports those core indicators which are of most relevance to its operations, products and stakeholders. The product performance section describes the environmental aspects and impacts of Wärtsilä's products, the measures taken by Wärtsilä to reduce these impacts, and the environmentally advanced solutions that Wärtsilä has developed. The Wärtsilä and Sustainable Development section examines the company's economic, environmental and social performance. The core indicators chosen are of importance at the corporate level.

Coverage of the report

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

Wärtsilä's Power Businesses comprise the Group's Ship Power, Power Plants and Services businesses and its Engine division.

The first three of these generate external net sales while the fourth is an internal function.

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

- DTS-Zwolle B.V., Schiffko GmbH
- Whessoe S.A., Total Automation Ltd.
- Wärtsilä Automation Norway, Whessoe Total Automation Ltd.
- Wärtsilä Propulsion (Wuxi) Co. Ltd.
- Wärtsilä-CME Zhenjiang Propeller Company Ltd.
- Wärtsilä Qiyao Diesel Company Ltd.
- Wärtsilä BLRT Estonia, Wärtsilä BLRT Services Klaipeda UAB.

The target is to include these companies in Wärtsilä's sustainable development reporting in 2006 and 2007. Wärtsilä's Sustainability Report is part of its Annual Report and therefore Wärtsilä publishes a Sustainability Report annually.

Significant changes in Group structure

The structural changes that apply to the Power Businesses are described under Social Responsibility. They relate mainly to development of the Ship Power and Services businesses.

Coverage of operational data

Operational data	% of Wärtsilä companies				% of personnel				% of product manufacturing			
	2006	05	03-04	02	2006	05	03-04	02	2006	05	03-04	02
Economic	100	100	100	100	100	100	100	100	100	100	100	100
Environmental	90	90	79	35	91	95	92	75	96	98	100	100
Social	90	90	79	45	91	95	92	85	96	98	100	100

Reporting profile

Data collection

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

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

Each company has a nominated individual responsible for collection and consolidation of the data, and for its quality and reliability. The management of each company approves the data before it is consolidated at Group level. The companies report

their sustainability data using Wärtsilä's CR Profile reporting system. The reported data is checked at both local and Group levels before its consolidation.

The content of this Sustainability Report was reviewed and approved by Wärtsilä's Board of Management on 13.2.2007.

KPMG Oy Ab has independently assessed the completeness, accuracy and consistency of the data in the report. Site audits were carried out in Rio de Janeiro, Brazil, and in Winterthur, Switzerland.

Additional sources of information

Wärtsilä has previously published the following reports:

- Wärtsilä Environmental Report 2000
- Wärtsilä Sustainability Report 2002
- Wärtsilä Sustainability Report 2004
- Wärtsilä Sustainability Report 2005.

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

Sustainability Report Project Team

Göran Hellén

Head of Emission Control and Combustion, Engine Division

Ari Suominen

General Manager, Environment, Power Plants

Peter Hanstén

General Manager, Quality, Ship Power

Arnauld Filancia

Marketing Communications Manager, Services

Tuija Lindroos

Publications Manager

Joséphine Mickwitz

Investor Relations Manager

Marko Vainikka

General Manager, Sustainability

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

Assurance statement

At the request of Wärtsilä Corporation, we have reviewed the sustainability reporting of Wärtsilä Corporation consisting of the economic, social and environmental data. The data are presented according to the GRI content index in the Business Review and Sustainability Report of the Annual Report of Wärtsilä Corporation for the year 2006. We have also reviewed the systems and methodologies behind the data. The presented data are the responsibility of, and have been approved by, the Board of Management of Wärtsilä Corporation. The inherent limitations of completeness, consistency and accuracy of the data are set out in the Sustainability Report of Wärtsilä Corporation.

The engagement work was undertaken in accordance with the International Standards on Assurance Engagements (ISAE) 3000 principles. We planned and carried out our work to provide moderate assurance on the reliability of the presented data that were subject to assurance.

Our review has consisted of the following procedures:

- a discussion with management responsible for compiling the report;
- an examination of relevant supporting information for data presented;
- a more detailed review of the systems for gathering and processing data at the operational level at one site in Rio de Janeiro, Brazil and one site in Winterthur, Switzerland, selected by us.

The sustainability reporting presented in the Business Review and Sustainability Report for 2006 has been prepared in accordance with the 2002 GRI Guidelines. Based on our procedures undertaken, nothing has come to our attention that causes us to believe that the data presented according to the GRI content index in the Business Review and Sustainability Report for 2006 would not have been prepared according to the internal reporting guidelines of Wärtsilä Corporation, and would not describe correctly the present state and progress of the issues presented in the Business Review and Sustainability Report for 2006.

Helsinki, 15 February 2007

KPMG OY AB

Mauri Palvi
Authorized Public Accountant

Olli Miettinen
Advisor, Sustainability Services

GRI content index

GRI content	Page	Remarks
Vision and strategy		
1.1 Vision and strategy	6–9	
1.2 CEO's statement	4–5	
Profile		
2.1 Name of reporting organization	1–3	
2.2 Major products and services	1–3	
2.3 Operational structure	1–3	
2.4 Description of major divisions	10–16	
2.5 Location of operations	Cover	Wärtsilä's website; www.wartsila.com
2.6 Nature of ownership; legal form	76–82	
2.7 Nature of markets served	1–3, 10–16	
2.8 Scale of reporting organization	1–3	
2.9 List of stakeholders	86–87	
Report scope		
2.10 Contact persons for the report	125	
2.11 Reporting period	125	
2.12 Recent reports	125	
2.13, 2.15 Boundaries of the report	125	
2.14 Significant changes	125	
2.16 Restatements	125	No changes.
Report profile		
2.17 GRI principles and protocols	125	Wärtsilä is familiar with the GRI protocols but has not adopted all the protocols because they are currently related to the G3 Guidelines.
2.18 Criteria and definitions used	125	
2.19 Significant changes in methods	125	
2.20 Policies and practices on data reporting	125	
2.21 Policy for independent assurance	125	
2.22 Obtaining additional information	125	

GRI content	Page	Remarks
Governance structure and management systems		
3.1–3.2 Governance structure, independence	19–24	
3.3 Process for determining expertise	19–24	
3.4 Identification and management of risks	17–18	
3.5 Executive compensation and achievement of goals	19–24	
3.6 Organizational structure and key individuals for implementation and audit	84–86	
3.7 Mission and values statements	6–9	
3.8 Mechanism for shareholder consultation and its use	19–23	
3.9 Identification and selection of major stakeholders	86–87	
3.10 Stakeholder consultation	86–87	
3.11–3.12 Information on stakeholder consultation and its use	86–87	
3.13 The precautionary principle	17–18, 85–86	
3.14 Voluntary charters and other initiatives	85	
3.15 Industry and business associations memberships	87	
3.16 Policies and systems for managing indirect impacts	84–86	
3.17 Approach to managing indirect impacts	84–113	
3.18 Major decisions on operational changes	8, 31–32, 118–119	
3.19 Programmes and procedures	84–85, 90–93, 118	
3.20 Certification of management systems	85, 114, 118	
Core indicators: economic		
EC1 Net sales	88–89	
EC2 Geographical breakdown of markets	88–89	
EC3 Costs of materials, goods purchased	88–89	
EC4 Percentage of contracts paid by agreed terms		Information is not available at the corporate level. The indicator has been removed from the G3 Guidelines.
EC5 Total payroll and benefits	88–89	
EC6 Interest paid to providers of capital	88–89	
EC7 Change in retained earnings	88–89	
EC8 Total sum of taxes	88–89	
EC9 Subsidies received	88–89	
EC10 Community donations	88–89	

■ Covered
 ■ Partly covered
 ■ Not covered

GRI content	Page	Remarks
Core indicators: environment		
EN1 Total material use	114–117, 124	Information is not available at the corporate level. Only the fuel consumption is reported. Reporting of materials consumption will be started when the coverage of the IT systems is sufficient.
EN2 Percentage of waste materials used from external sources		Information is not available at the corporate level. Recycled materials are used in engine and propeller manufacturing.
EN3–EN4 Direct and indirect energy use	114–117	
EN5 Total water use	114–117	
EN6–EN7 Biodiversity-rich habitats, impacts on biodiversity	117	
EN8 Greenhouse gas emissions	114–117	
EN9 Ozone-depleting substances		Not applicable to Wärtsilä.
EN10 NO _x , SO _x and other significant emissions to the air	114–117	
EN11 Total amount of waste	114–117	
EN12 Significant discharges to water	114–117	
EN13 Significant spills	114–117	
EN14 Environmental impacts of products and services	90–113	
EN15 Reclaimable product after useful life	94–95	www.wartsila.com – Sustainability pages
EN16 Incidents and fines	114–117	
EN35 Environmental expenditure (additional)	114–117	

■ Covered ■ Partly covered ■ Not covered

GRI content	Page	Remarks
Core indicators: social		
LA1 Workforce breakdown	118–123	
LA2 Net employment creation	118–123	
LA3 Employees represented by trade unions	118–123	
LA4 Policy and procedure relating to consultation with employees	118–123	
LA5 Notification of occupational accidents/diseases	118–123	
LA6 Joint health and safety committees	118–123	
LA7 Injury, lost time injury, absence rates	118–123	
LA8 Policies and programmes on HIV/AIDS	118–123	No separate policy or programme. These issues are part of the company's occupational health scheme for employees.
LA9 Average training hours per year	118–123	
LA10 Equal opportunities and programmes	84–85, 118–123	
LA11 Composition of senior management and corporate governance bodies	25–26	
HR1 Policies and guidelines (human rights)	84–85, 118–123	
HR2 Considerations of human rights in investment in supply chain	84–85, 122	Reportable evidence not available. Wärtsilä assesses its suppliers as described in this report and companies in conjunction with mergers and acquisitions.
HR3 Policies and procedures to evaluate human rights	84–85, 122	
HR4 Global policy preventing discrimination	84–85, 118–123	
HR5 Freedom of association policies	84–85, 118–123	
HR6 Policy excluding child labour	84–85, 118–123	
HR7 Policy to prevent forced and compulsory labour	84–85, 118–123	
SO1 Impacts on communities	84–87, 118–123	No separate procedure or monitoring system available.
SO2 Bribery and corruption prevention	84–85, 118–123	No separate procedure or monitoring system available.
SO3 Managing political lobbying and contributions	118–123	
PR1 Policy for preserving customer health and safety	9, 84–86	
PR2 Policy relating to product information and labelling	84–86	Not applicable to Wärtsilä.
PR3 Policy relating to consumer privacy		Not applicable to Wärtsilä.
PR8 Policy relating to customer satisfaction	85, 123	

Information for Shareholders

Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Wednesday, 14 March 2007, beginning at 16 p.m., in the Congress Wing of the Helsinki Fair Centre, address Messuaukio 1, 00520 Helsinki, Finland.

Right to attend

Shareholders registered no later than 2 March 2007 in the Company's list of shareholders maintained by the Finnish Central Securities Depository Ltd have the right to attend the Annual General Meeting.

Notification of attendance

Shareholders wishing to attend the Annual General Meeting are required to inform the Company thereof not later than 4 p.m. on 9 March 2007 either by letter, by e-mail, by fax, by telephone or on internet.

Registration:

Wärtsilä Corporation
Share Register
P.O.Box 196
FI-00531 Helsinki, Finland
telephone +358 10 709 5282,
between 10 a.m. and 2 p.m. on weekdays
fax +358 10 709 5283
e-mail: yk@wartsila.com
Internet: www.wartsila.com/agm_register

Letters, e-mails and faxes informing of participation at the Annual General Meeting must reach the Company before the notification period expires at 4 p.m. on 9 March 2007. Letters authorizing a proxy to exercise a shareholder's voting right at the Annual General Meeting should reach the Company before the notification period expires.

Payment of dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 1.75 per share will be paid on the 2006 financial period. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Finnish Central Securities Depository Ltd on the record date, which is 19 March 2007. The dividend payment date proposed by the Board is 26 March 2007.

Financial information 2007

Annual Report 2006

This Annual Report is also available in Finnish and Swedish and may be downloaded at Wärtsilä's Internet site: www.wartsila.com.

Interim Reports 2007

January–March on Friday 4 May 2007
January–June on Friday 3 August 2007
January–September on Tuesday
30 October 2007

Interim Reports will be published in English, Finnish and Swedish on Wärtsilä's internet site.

Stock Exchange Releases

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

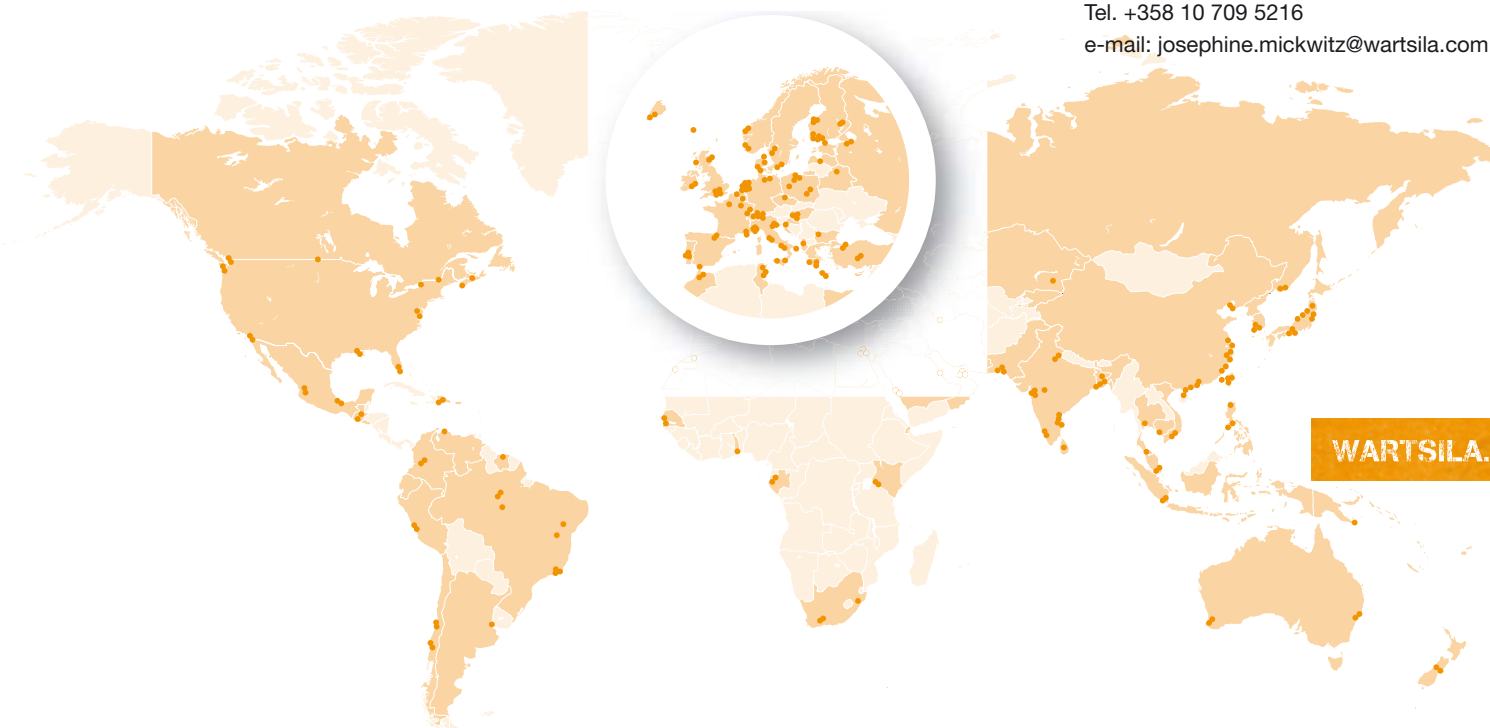
Ordering information material

Wärtsilä's Annual and Interim Reports, release and brochures can be ordered from the Communications Department either by telephone +358 10 709 0000, fax +358 10 709 5219, e-mail: corpcom@wartsila.com or via the internet at www.wartsila.com.

Further information on Wärtsilä Corporation

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