



We work with the **uncontrollable**

# Contents

## **1 Business review**

2 This is Wärtsilä

4 2007 In Brief

6 Letter to the Shareholders

8 Strategy

12 Ship Power

18 Services

24 Power Plants

30 Wärtsilä Industrial Operations

31 Operative risks and risk management

33 Corporate Governance

37 Board of Directors

38 Board of Management

39 Corporate Management

39 Management Teams

## **40 Sustainability**

## **76 Financial review**

Our strategic course is to strengthen our leading position in our markets and to ensure continued growth by offering our customers best lifecycle efficiency and reliability available.



We won't let it change **our course**



# This is Wärtsilä

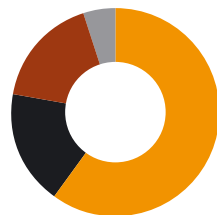
We enhance the business of our customers by providing them with complete lifecycle power solutions. When creating better and environmentally compatible technologies, we focus on the marine and energy markets. We provide ship power solutions and flexible power plants with related services to our customers. Through innovative products and services, we set out to be the most valued business partner of all our customers. This is achieved by the dedication of more than 16,000 professionals manning 150 locations in 70 countries around the world. Wärtsilä is listed on The Nordic Exchange in Helsinki, Finland.

Net sales by business area



- Services 41% (40)
- Ship Power 35% (31)
- Power Plants 24% (29)

Personnel by businesses



- Services 60% (61)
- Ship Power 18% (18)
- Industrial Operations 17% (16)
- Power Plants 5% (6)



## SHIP POWER

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





## SERVICES

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

## POWER PLANTS

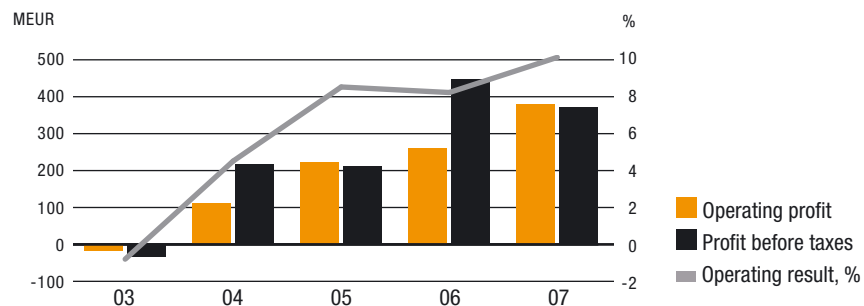
Wärtsilä is a leading supplier of flexible power plants for the decentralized power generation market. We offer solutions for baseload power generation, grid stability & peaking, industrial selfgeneration as well as for the oil and gas industry. Technology leadership, a strong and broad product portfolio, high efficiency and fuel flexibility, plus the ability to offer complete turnkey deliveries worldwide puts us in a unique position in the power plant markets.



# 2007 In Brief

- **Ship Power markets continued active.** Contracting level was 20% higher in number of vessels and 40% higher in tonnage compared to 2006. Demand was very strong especially in the merchant vessel segment. High oil prices continued boosting demand in the offshore segment.
- **Demand in the Power Plant market remained high** and all segments relevant to Wärtsilä – baseload production, industrial self generation and grid stability – were active during the review period. Markets continued to be globally active.
- **Order intake grew 22%** and totalled EUR 5,633 million (4,621), the order book stood at EUR 6,308 million (4,439).
- **Net sales grew by 18%** to EUR 3,763 million (3,190) and profitability improved to 10.1% of net sales. Operating income totalled EUR 379 million (262).
- **Continued penetration of the Asian market** through the establishment of 50/50-owned joint venture in Korea to manufacture dual-fuel engines for LNG carriers for the Korean, Japanese, Chinese and Taiwanese shipbuilding markets.
- **Investment programs** to increase the production capacity of medium speed engines in Finland and Italy finalized. In terms of output a total of 5,416 MW (4,256) of engines manufactured in Wärtsilä's own factories were delivered during 2007. Several investment programs to increase the propulsion production capacity were started.

## Result

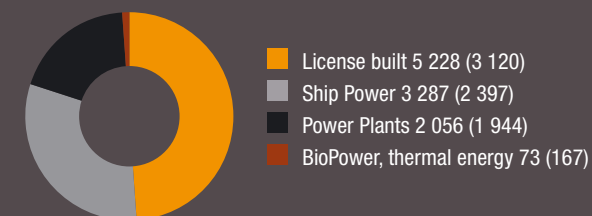


The investment project at the Delivery Centre Trieste in Italy was completed in 2007. Wärtsilä invested in a modern manufacturing concept to deliver higher quality, raise efficiency and to increase capacity for engine assembly and testing.

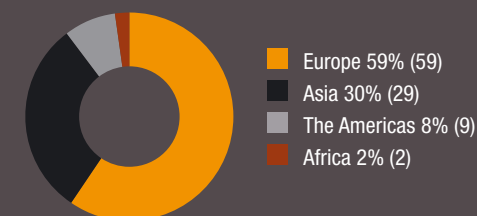
## Key ratios

MEUR	2007	10-12/2007	7-9/2007	4-6/2007	1-3/2007	2006	2005
Net sales	3 763	1 272	933	797	761	3 190	2 639
Ship Power	1 320	448	310	305	256	985	710
Services	1 550	431	394	374	352	1 267	1 093
Power Plants	882	391	228	112	150	934	710
Imatra Steel	-	-	-	-	-	-	119
Depreciation and impairment	-78	-22	-19	-18	-18	-72	-72
Power Businesses	-78	-22	-19	-18	-18	-72	-67
Imatra Steel	-	-	-	-	-	-	-4
Operating result	379	146	96	73	63	262	224
Power Businesses	379	146	96	73	63	262	203
Imatra Steel	-	-	-	-	-	-	22
Net income from assets available for sale	-	-	-	-	-	124	-
Profit before taxes	372	145	95	72	60	447	212
Earnings per share, EUR	2.74	1.05	0.71	0.54	0.44	3.72	1.80
Balance sheet total	3 749	3 749	3 593	3 430	3 324	3 188	2 869
Interest-bearing liabilities, gross	283	283	295	348	364	270	404
Cash and cash equivalents	296	296	202	133	148	179	120
Operating result, %	10.1	11.5	10.3	9.2	8.3	8.2	8.5
Power Businesses	10.1	11.5	10.3	9.2	8.3	8.2	8.0
Imatra Steel	-	-	-	-	-	-	18.3
ROI, %	26.0	-	-	-	-	31.8	18.0
Power Businesses	26.0	-	-	-	-	31.8	18.9
Imatra Steel	-	-	-	-	-	-	46.0
Gearing	-0.01	-0.01	0.08	0.18	0.19	0.07	0.24
Megawatts delivered	10 644	3 489	2 418	2 314	2 423	7 628	7 061
Order book, end of period, Power Businesses	6 308	6 308	6 162	5 460	4 860	4 439	2 906
Order intake, Power Businesses	5 633	1 594	1 514	1 369	1 157	4 621	3 491
Personnel, end of period	16 336	16 336	15 811	15 180	14 754	14 346	12 008
Year-end market capitalization	5 023	5 023	4 616	4 659	4 417	3 898	2 348

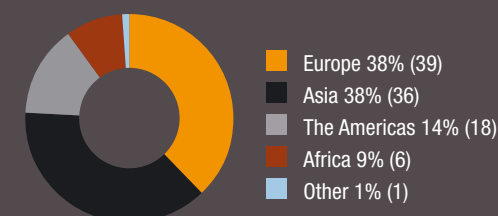
## Megawatts delivered



## Personnel by market area



## Net sales by market area



# Year of investments

# Dear Shareholders,

2007 was in many respects, yet another record year in the history of Wärtsilä's current activities. New orders grew by 22 percent and net sales by 18 percent. Profitability measured as operating margin reached 10.1 percent. And the best is still to come. The EUR six billion order book promises strong sales growth and further improved profitability also in 2008, a year that will certainly be a busy one for all 16,000 Wärtsilä employees.

Good market demand has naturally contributed to this success. The number of new ship orders continued to grow for the sixth consecutive year. Several years of neglected or insufficient investment in the energy sector resulted in a steep increase in the amount of power plants ordered. We expect contracting activity to stay solid at least for the first part of the year 2008 with strong power plant activity offsetting a possible weakening of ship power demand. For our Services business, a high ship and power plant utilisation rate offers ample opportunity for development and growth.

## **Emissions high on R&D agenda**

During recent years, Wärtsilä has grown to become a leading global provider of a broad range of ship, ship machinery, and power plant services. In combination with our advanced, environmentally sound liquid fuel and gas engines and power plants, efficient propulsion packages, and automation systems, this platform makes us an attractive business partner. We consider sustainability of our products and services to be not only a necessity or opportunity, but rather our duty as a leading provider of equipment to the world's seagoing fleet and many important power plant markets. As a consequence, improved engine efficiency and exhaust gas cleaning methods, as well as fuel cell development, are high on our research agenda.

## **Investments in assembly efficiency supports growth**

Being able to take advantage of strong demand, and at the same time adding value to our customers' businesses, requires careful homework. Capacity has been increased during the year. The main projects were the renewal of engine assembly facilities in Trieste, Italy and Vaasa, Finland, and the upgrading of propeller and thrusters production in Drunen, Holland and in China. The investment programs have largely concentrated on assembly efficiencies. Total capital expenditure amounted to EUR 166 million compared to EUR 107 million in 2006. Our subcontractors have initiated capacity increase programmes worth at least the same amount. The steep ramp up of capac-

ity throughout the supply chain has, from time to time, caused shortages resulting in delays or an inability to respond to customers demands. We expect the supply chain to be highly utilized throughout 2008.

Three issues top our strategic agenda:

- The broadening of our products and services offering, both in terms of number of products and geographical spread
- The constant need to upgrade our services and products for improved sustainability
- Availability of key personnel in all parts of the world to support growth

Wärtsilä is dedicated to maintaining growth based on customer confidence. Success in these areas will determine our future position as a key player in this demanding market place.

I would like to thank our customers for their continued trust and support, our employees for their commitment, and our shareholders for their confidence in our company.



Ole Johansson





# Strategy

We enhance the business of our customers by providing them with complete lifecycle power solutions. When creating better and environmentally compatible technologies, we focus on the marine and energy markets. We provide ship power solutions and flexible power plants with related services to our customers. Through innovative products and services, we set out to be the most valued business partner of all our customers. Our strategic aim is to strengthen our leading position in our markets and to ensure continued growth by offering our customers best lifecycle efficiency and reliability available. This is made possible by an integrated equipment and service portfolio that matches customers' needs globally.





# Our course is profitable growth

## Ship Power

Wärtsilä Ship Power supplies marine products for all types of vessels and offshore applications. As a supplier of highly rated ship power solutions, we hold a strong position in all the main marine segments.

Our strategy is to be the preferred choice of our customers by providing value adding solutions for their specific needs. This implies further strengthening of our leading position and to seek further growth by broadening our product and services offering that help customers use their power systems more efficiently, safely and in an environmentally friendly way. Our target is to further enhance our Ship Power Supplier concept by integrating components and subsystems into complete solutions and we are further deepening our expertise in areas that support our goals, such as automation and electronics, environmental offering and

ship design. The continuous strengthening of our position is done through organic growth, partnerships and acquisitions.

Asia continues to be the hub of the shipbuilding industry. We will continue to reinforce our presence in Asia through partnerships, by boosting production capacity and by reinforcing our lifecycle customer support.

## Services

Wärtsilä supports its customers throughout the lifecycle of their installations. We provide services and support for both ship machinery and power plants. We have the most extensive service network in the industry covering engine services, automation services, propulsion services, operations & management, reconditioning services, training services and ship services. Our service network is unique in both the breadth

of its scope, and its geographical coverage. We are seeking growth through global geographical presence and through broadening our services portfolio. The services portfolio has undergone consistent development, largely through innovations and acquisitions. During recent years, our services business has experienced strong growth, and this will continue organically, through acquisitions and via partnerships. Our Services business provides a stable platform for growth.

## Power Plants

Wärtsilä is a leading supplier of power plants for decentralized power generation. We aim to be the market leader in our defined segments which are flexible baseload power, industrial self-generation, grid stability and peaking, as well as power solutions for the oil and gas industry.

## 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.

## 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.

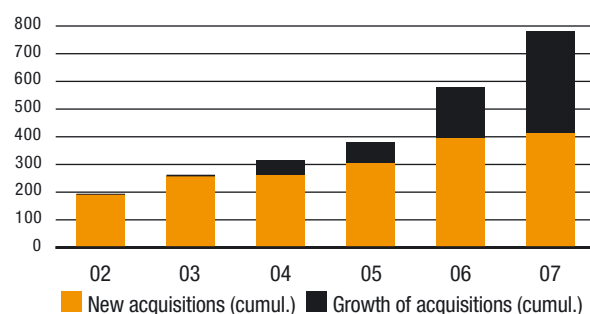
## VISION

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

Our goal is to further strengthen and expand our position in the target segments globally. We see strong growth potential for our fuel flexible power plants as these provide a flexible and efficient solution for a world where fuel availability and security are key issues. Wärtsilä is continuously expanding its fuel capabilities. Significant growth can be seen in the gas and liquid bio fuel markets. In the market for heavy fuel oil power plants, growth is more stable and Wärtsilä is focusing on carefully defined market segments where growth is higher than average. Whatever the fuel and wherever the market, Wärtsilä's solutions maximize the efficiency of the total power plant.

## Acquisitions – a catalyst for growth

Sales MEUR



## Research & Development

Wärtsilä develops, designs and manufactures competitive engine and propulsion products, along with solutions based on these. In our Research & Development activities, the objective is to achieve a leading position in engine technology, and specifically in the areas of environmental technology, reliability, operational lifecycle costs and automation. The product portfolio derives from our own engineering as well as from co-operation with the strategic partners. Wärtsilä continues to develop total solutions for Ship Power and Power Plant based on customer needs and requests to offer highly efficient lifecycle performances. For the after market, we develop after market solutions including upgrades to prolong the lifecycle for customer installations and to meet future environmental regulations.

**Organic growth of acquisitions has averaged 22% per annum, Wärtsilä overall (excl. acquisitions) 8%.**

Note: Includes the following transactions: John Crane Lips, Ciserv Gothenburg, Metalock Singapore, CGL, JMC, Caltax, Ciserv Baltica (JV), Decam, Deutz Marine Services, Gerhardt, Akpas and Total Automation

## Manufacturing

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

## Environmental goals

Wärtsilä's overriding promise is to supply power solutions offering high efficiency with low environmental load. Our objective is to continuously improve the environmental performance of our products and services and to maintain technological leadership by utilizing new technologies and collaborating with both our customers and other stakeholder groups. By doing this we enable the tightening of the relevant international environmental regulations of e.g. IMO and World Bank, which we consider a basis for our R&D.

## Social responsibility

Wärtsilä acts as a good corporate citizen wherever we are active. Our business operations and relations with our stake-

# Strategic acquisitions and joint ventures in 2007

To support our growth targets we have taken several strategic steps in order to broaden the Services and Ship Power product offering, and to increase geographical presence in key areas:

- In January Wärtsilä and Hyundai Heavy Industries Co. Ltd (HHI) signed an agreement to set up a 50/50-owned joint venture in Korea to manufacture dual-fuel engines for LNG (liquefied natural gas) carriers for the Korean, Japanese, Chinese and Taiwanese shipbuilding markets. The first engine will be delivered during the second half of 2008. The joint venture will employ approx. 150 people.
- In February we acquired the Swedish company Senitec AB. The company specializes in environmental technology products for separating waste, such as oily water and sludge, in power plants, harbours and ships. The acquisition added 5 people to our workforce.
- In February we acquired the entire business of Marine Propeller (Pty) Ltd in Cape Town, South Africa. Marine Propeller (Pty) Ltd focuses mainly on repairing propellers. The acquisition added 8 people to our workforce.
- In May we continued extending our service offering in propulsion services with the acquisition of UK-based propeller repair company McCall Propellers Ltd. The acquisition added 33 people to our workforce.
- In July we finalized the acquisition of the marine business of Railko Ltd. in the UK, a company specializing in stern tube bearing technology. The acquisition improves our competitive position in oil-lubricated bearing systems and adds water-lubricated bearings to the product portfolio. The acquisition added 25 people to our workforce.
- In August we acquired the Scottish company, Electrical Power



holders are governed by our Code of Conduct. We seek to offer our employees an interesting and exciting workplace where openness, respect, trust, equal opportunity and scope for personal development prevail. A further aim is to offer a hazard-free working environment to our employees and contractors, and to minimize the health and safety risks associated with the use of our products and services. Supply chain management and development are integral elements of our operations.

### Financial targets

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

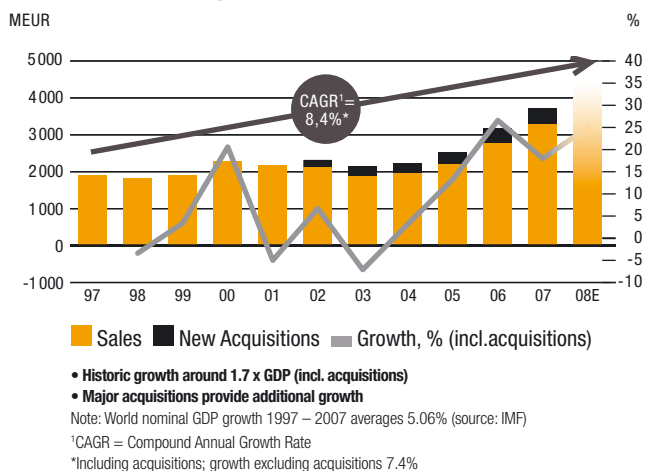
### Dividend policy

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

### Prospects in 2008

Based on our strong order book and the continued strong development of the Services business our net sales are expected to increase by about 25% in 2008. Profitability will exceed 11%.

### Growth over the cycle



#### Elements of a more robust business model:

- Business mix more stable
  - Services' share of sales increased
  - Offering in all businesses broadened
  - Global presence increased
  - Multiple fuel offering (fuel oils, bio-oil, gas, multifuel)
- Capacity outsourcing in Industrial Operations
- More flexible business model in Power Plants

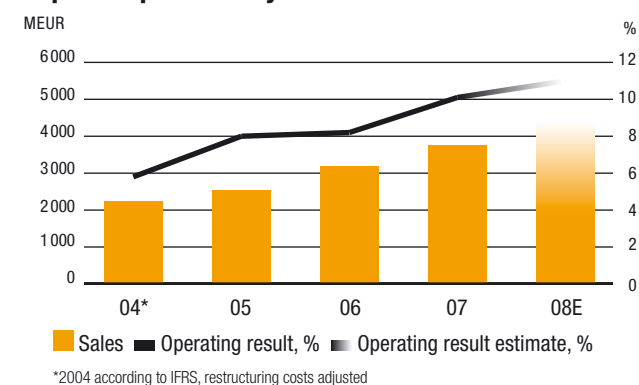
### Dividend/share, earnings/share

	2007	2006	2005	2004	2003
Dividend per share	2.25 <sup>1</sup>	1.75	0.90	0.45	0.50
Extra dividend per share	2.00 <sup>1</sup>	-	2.10	0.45	0.67
Earnings per share (EPS)	2.74	3.72 <sup>2</sup>	1.80	1.42 <sup>2</sup>	-0.44

2004–2007 according to IFRS, 2003 according to FAS.

<sup>1</sup> Proposal by the Board <sup>2</sup> Includes non-operational income; Assa Abloy & Ovako

### Improved profitability



Engineering (Scotland) Ltd. The company specializes in electrical power engineering solutions for marine, offshore, industrial and utilities segments. The acquisition added 31 people to our workforce.

### Other strategic issues:

- In January Wärtsilä announced a public offer to the minority shareholders of Wärtsilä India Ltd to acquire 1,240,599 shares, or 10.3% of the share capital. The delisting offer was successful and 8.5% of the total shares were acquired. The shares of Wärtsilä India Ltd were delisted from the Bombay Stock Exchange on 18 June 2007.
- To improve marine customer service in the rapidly growing

Chinese markets, we opened a large reconditioning workshop in Shanghai in March. In May a service workshop and an office were opened in Vietnam to serve the growing Vietnamese shipping, shipbuilding and power industries.

- The demand for training services is steadily rising and Wärtsilä opened a new training centre in South Korea, the world's largest shipbuilding country, to provide training for customers' engineers.
- In May Wärtsilä and Vietnam Shipbuilding Industry Corporation (Vinashin) signed a licence agreement for the manufacture and sale of Wärtsilä low-speed marine engines in Vietnam.

- In October Wärtsilä and Bryansk Engineering Works (BMZ), signed a licence agreement for the manufacture of Wärtsilä's low-speed marine diesel engines in Russia.
- In November Wärtsilä and V.Ships, specialised in ship management agreed to cooperate on the provision of a broad spectrum of marine and technical services in the marine market.
- Wärtsilä Ship Power was reorganised into five Ship Power customer segments: Merchant, Offshore, Cruise&Ferry, Navy and Special vessels. The aim is to better respond to market requirements and technology development, as well as to be prepared for market fluctuations.

# SHIP POWER



■ Our course is to be the leading total solutions provider.



## CASE OFFSHORE

# Large scope offering in demanding offshore market

**In May 2007 Wärtsilä was awarded a contract by Brazilian offshore company Dynamic Producer Inc. to supply the entire power, automation and propulsion system for a dynamically-positioned well-testing FPSO (floating production, storage and offloading) vessel PIPA II.**

Wärtsilä will supply the electrical propulsion, control and electrical distribution systems, including diesel generating sets, steerable thrusters and the complete automation and safety system, including topside automation. As part of the contract, Wärtsilä will provide an integrated engineering team which will take care of all engineering related to the delivery of the scope. This team will also be involved in the commissioning phase during the conversion.

“This order continues Wärtsilä’s success in large offshore installations. It demonstrates our extensive capabilities with large in-house offering combined with our alliance partner Emerson Process Management, hence lifting us into a unique position as a single source supplier in the market”, says Jaakko Eskola, Group Vice President, Wärtsilä Ship Power.

■ Singapore, aerial view of port.





# Ship Power – a strong position in all customer segments

Wärtsilä Ship Power supplies marine products for all types of vessels and offshore applications. We hold a strong position in all main marine segments as a supplier of highly rated ship power solutions.

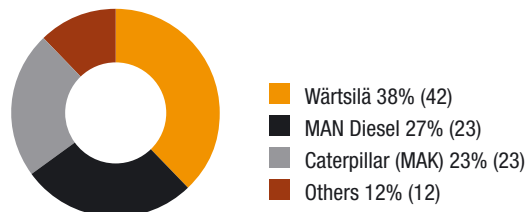


Wärtsilä manufactures propellers in China, the Netherlands, Spain and Norway.



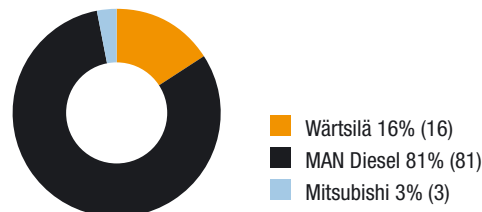
## Market position of Wärtsilä's marine engines Q4/2007

### Medium-speed main engines



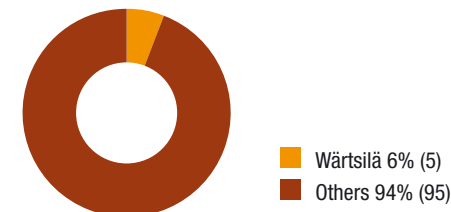
Total market volume last 12 months: 8 800 MW (8 700)

### Low-speed main engines



Total market volume last 12 months: 38 100 MW (34 100)

### Auxiliary engines



Total market volume last 12 months: 9 000 MW (8 200)

Wärtsilä's own calculation is based on Marine Market Database. Market shares based on installed power, numbers in brackets are from the end of the previous quarter. The total market is based on the volume of the last 12 months. Numbers in brackets reflect the volume of the last 12 months at the end of the previous quarter.

Our strategy is to strengthen our leading position and to seek further growth by broadening our product offering, and by further strengthening our presence in Asia, through intensified partnerships on all fronts. The broadest product portfolio in the industry together with our ability to combine products into larger products and solutions, together with our global sales and service network, puts us in a unique and highly competitive position.

### Demand drivers and geographic focus areas

Demand in the shipbuilding and shipping industries is driven by world economic growth, and its impact on trade and demand and supply for transport capacity. Other factors, such as shipyard capacity, new build prices, de-commissioning and scrapping, oil prices, interest and freight rates, and environmental considerations, also affect willingness to make investments in shipping. The main market driver for our Ship Power business is the global demand for new vessels, in particular ships built for seaborne cargo transportation, offshore oil exploration and support, cruise and ferry services, as well as naval contracting. Geographically the hub of the shipbuilding industry is Asia, headed by China and Korea. European shipyards concentrate on special-purpose vessels, offshore vessels, passenger ferries, and cruise ships.

### Competitive position and market position

We are the market leader in medium-speed main engines. Our

largest competitors are the other main suppliers of medium-speed diesel engines, MAN Diesel and Caterpillar (MAK). All of these medium-speed main engine suppliers have their own manufacturing capacity concentrated mainly into their European plants. In addition some of the competition's products are manufactured under license mainly in Korea and China. Wärtsilä has established a 50/50 joint venture with Hyundai Heavy Industries to manufacture our dual-fuel engines for the LNG market in Korea. The factory will start operations at the end of 2008.

Our reputation in the marine industry is based on our design capabilities, our long manufacturing heritage and the technological leadership of our solutions.

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

built. During 2008, our joint venture to manufacture low-speed engines in China, together with Chinese shipbuilding company CSIC and Mitsubishi Heavy Industries will become operational. The aim is to improve our position and competitiveness in low-speed engines, as well as to further expand our presence in Asia.

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

In propulsion equipment, the competitive environment varies from one application area to another. Rolls-Royce and Schottel are the main competitors in CPP and steerable thrusters. In FPP the competition comes mainly from Asia - Nakashima, Hyundai Heavy Industries and Mitsubishi Heavy Industries being the main players, together with the German producer Mecklenburger Metallguss. In tunnel thrusters, the competition is more fragmented.

### Two-fold customer structure

Our two customer groups are shipyards and ship owners, and we must meet the needs and demands of both these groups. Shipyard decisions are mainly determined by ship component 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 ship owners, on the other hand, are engine reliability, operational economy and support, emissions as well as the availability of services over the 25 year lifetime of a vessel. Other issues affecting decision-making are freight rates, fuel prices, interest rates, and the cost of the ship. The variables also differ according to vessel type.

### Customer segments – Moving towards a more customer-driven approach

To better respond to market requirements, both in terms of value proposition and technology development, we are in the process of reorganising our business into five Ship Power customer segments:

**Merchant** – includes vessels such as container vessels, tankers, bulk carriers, LNG carriers, RoRo and other cargo vessels.

**Offshore** – includes vessels and platforms used in oil and gas exploration and production, as well as their support activities; drilling rigs and ships, anchor handling vessels, offshore research vessels, floating production units, platform supply vessels, etc.

**Cruise&Ferry** – includes cruise vessels, passenger ferries, passenger/cargo ferries, fast ferries and yachts.

**Navy** – includes various kinds of naval vessels and submarines

**Special vessels** – includes a broad range of different vessels, the main categories being tugs, fishing vessels, dredgers and research vessels.

#### Product areas

- Medium-speed engines
- Low-speed engines
- Propulsion equipment
- Seals and bearings
- Automation systems
- Power distribution systems and drives

#### Related services

- Ship design
- Engineering
- Project management
- Commissioning
- Lifetime support

#### Ship Power products

Our reputation in the marine industry is based on our design capabilities, our long manufacturing heritage, and the technological leadership of our solutions. Our products are known to be reliable, economical and environmentally sound. Over the years we have continuously broadened the range of our offerings and today our strength lies in being the integrator with the broadest offering in the industry.

Our product strategy is based



Deepwater rigid pipelaying vessel equipped with Wärtsilä gensets and electric power system.



on Ship Power Supplier concept. Through this strategy of having an extensive portfolio of integrated product offering, we offer our customers added value by enabling them to concentrate on their core expertise. The single supplier approach brings our customers various benefits – shipyards having less risks with installation and system compliance while shipowners have better operational efficiency and maintainability.

## Ship Power and sustainability

The emission levels of shipping are increasing in absolute terms as the shipping industry grows. Increased environmental concerns and climate change puts pressure on the marine industry to constantly investigate new ways of reducing the environmental impact of ships. Wärtsilä is the technology fore-runner and leading provider of complete lifecycle power solutions, which call for new and competitive, innovative and efficient applications. We are continuously developing and enhancing our solutions to better meet the future need and demand for environmentally sound solutions. Optimization of total ship efficiency becomes even more important. Utilization of alternative fuels, e.g. natural gas, will become an option in certain business segments. We have developed several concepts, which improve total ship efficiency and enable the use of natural gas in the ships. The compliance with the regulations is a natural starting point for all our product development. Additionally the development focus for our Ship Power business is in efficiency improvement and emission reduction. We strive to be at the forefront in all environmental and sustainability issues.

## Compliance with regulations

Environmental regulation in the shipping industry is currently being reviewed and will become stricter. The International Maritime Organisation's (IMO) future emission regulations, local regulations in EU and the US are only a few examples of stricter

environmental regulation within our industry. We are continuously working to develop NO<sub>x</sub> and other emission reduction technologies that will make it possible to comply with the strictest national and/or regional legislation, now and in the future. The minimum environmental requirement set by ourselves for our engines is currently compliance with NO<sub>x</sub> emissions stipulated in MARPOL 73/78 annex VI.

## Efficiency improvement

We are constantly seeking to find better propulsion machinery solutions for ships. This includes looking not only at the engines and propellers, but at the entire ship concept. We have gained experience working with our partners in the design of various vessel types. Examples include the LNG carriers equipped with our dual fuel engines, and the environmentally advanced RoPax vessels.

## Emissions reduction

Most harbours in the world are located close to densely populated areas, hence the strong demand during recent years for no-visible-smoke. Common-rail technology makes it possible to provide smokeless engines, and we have the broadest range of common-rail technology for heavy fuel oil operations in the industry. Reducing NO<sub>x</sub> emissions continues to be of high importance in the marine business, and we will continue to develop our equipment accordingly. Our existing engines can also be modified with developed NO<sub>x</sub> reduction technologies both primary (e.g. WETPAC-H) and secondary methods (e.g. SCR). To reduce CO<sub>2</sub> and SO<sub>x</sub> emissions we have increased the efficiency of the engines and whole ships as well as developed multifuel engines. To reduce emissions to the water, our sealing systems offer environmentally sound alternatives that prevent the spilling of oil from ships into the environment. We also offer efficient treatment systems for sludge and bilge water.

## Solutions for efficiency improvement

Concept	Major benefits
EnviroPax	<ul style="list-style-type: none"> <li>• Lower lifecycle costs</li> <li>• Increased cargo space</li> <li>• Extremely low smoke and NO<sub>x</sub> emissions</li> </ul>
LNG Carrier machinery	<ul style="list-style-type: none"> <li>• Higher efficiency compared to the steam turbine</li> <li>• Lower exhaust emissions</li> <li>• Optimized vessel design with increased cargo capacity and operating speed</li> </ul>
Waste Heat Recovery	<ul style="list-style-type: none"> <li>• Lower fuel costs</li> <li>• Reducing emissions</li> </ul>
Delta Tuning	<ul style="list-style-type: none"> <li>• Lower fuel consumption</li> </ul>
LNG Cruise Ferry	<ul style="list-style-type: none"> <li>• Eliminated SO<sub>x</sub> emissions and reduced NO<sub>x</sub> and CO<sub>2</sub> emissions</li> <li>• Cost-effective operation in various operation modes</li> </ul>

# SERVICES

A large, cylindrical industrial component, possibly a propeller or a turbine part, is being lifted by a crane in a shipyard. The component is suspended by thick cables and is being moved from a small cart on the ground. Two workers in blue uniforms and hard hats are visible in the background, one standing near the cart and another near the crane. The shipyard structure is made of rusted metal, and a red ship hull is visible in the upper right. The word "SERVICES" is overlaid in a large, white, distressed font in the top left corner.

Our course is to have the broadest service offering and geographical presence in the market.



## CASE PROPULSION SERVICES

# Overhaul of eight thrusters in 28 days

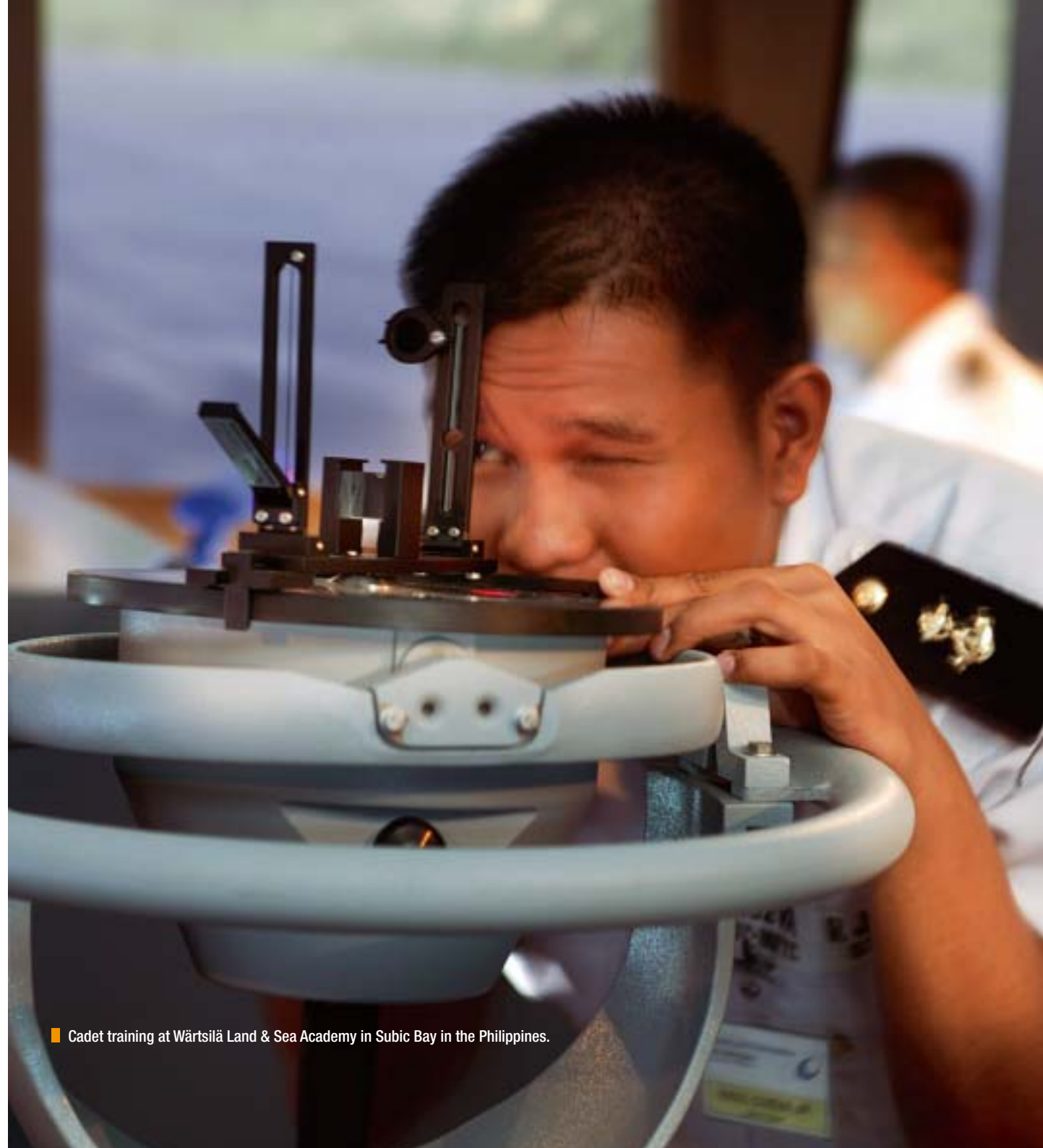
**Time was of the essence, when the Houston-based Helix Energy Solutions Group approached Wärtsilä to carry out an overhaul of eight thrusters installed on their reeled pipe-lay vessel Intrepid during a dry-docking. Time to use – 28 days.**

Wärtsilä assembled a team of propulsion specialists from its global service network that included specialists from North America, the Netherlands and Canada. The team gathered at the Wärtsilä repair facility in Houston, Texas, where a plan of action was conceived to meet the challenge. The retractable thrusters needed to be removed from the pipe-lay vessel as quickly and efficiently as possible, after which the 24,000h overhaul work could commence. The removed thrusters were taken to the Wärtsilä workshop in Houston. Once there, overhaul of the retractable thrusters consisted of a complete disassembly, inspection, and then reassembly of the upper gearboxes, steering pipes and lower gearboxes. After that the equipment was carefully placed back aboard the ship. All eight thrusters, with their propellers, rope guards and nozzles, were remounted. Working around the clock, it was possible to meet the challenge and keep to the time schedule.

Propulsion Services in Wärtsilä's  
Services workshop in Tallin, Estonia.

# Services

We offer innovative solutions that support our customers throughout the lifetime of their installations. We have more than 9,000 professionals worldwide in over 150 locations in 70 countries around the world.



■ Cadet training at Wärtsilä Land & Sea Academy in Subic Bay in the Philippines.



In our Services business we are seeking growth through global geographical presence, and through broadening our services portfolio. The services portfolio has undergone consistent development, largely through innovations and acquisitions. During recent years, our Services business has experienced strong growth. Today we are present in 150 locations in 70 countries around the world.

Whereas new equipment sales in Ship Power and Power Plants tend to be somewhat cyclical, the Services business provides a stable platform for growth.

### Demand drivers

The main driver for our Services business is lifecycle efficiency, for which the availability, reliability, and economy of the equipment and installations are paramount. Amongst other issues driving growth in the services market are environmental concerns, the implementation of new legislation, the need to lower operating costs, modernisation, enhanced safety, as well as O&M outsourcing.

### Competition and market position

There is no competitor with the ability to supply such a broad offering from one single source. Each service category therefore has its own set of competitors and challenges. There are only a few global players to talk of, and thus competition is mainly local.

### Service categories

Our Services business covers both the Ship Power and Power Plants businesses in their entirety. Although our predominant market is our own installed base, we are increasingly expanding our offering to include non-engine related services and solutions, as well as serving other engine-brands and solutions.

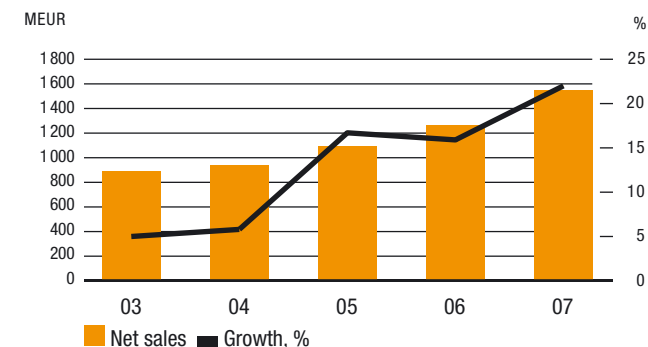
We are the only service provider able to offer such a large range of services to our industry. The range draws together the technical expertise of the entire organization to meet both local and global requirements.

<p><b>Service categories</b></p> <ul style="list-style-type: none"> <li>• Engine services</li> <li>• Automation services</li> <li>• Propulsion services</li> </ul>	<ul style="list-style-type: none"> <li>• Operation &amp; Management</li> <li>• Reconditioning services</li> <li>• Training services</li> <li>• Ship services</li> </ul>
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### Automation Services

During recent years, by adding automation services to our service offering, we have taken an important step in our strategy to become a total solutions provider. Through this addition we have gained better control over our value chain from design to lifetime support, and have obtained a solid customer base and contacts to projects, especially in the North Sea, Singapore and oil and gas business. Our automation services takes care of all the control and instrumentation systems of control rooms, switchboards,

### Solid growth in Services



**There is no competitor with the ability to supply such a broad offering from one single source.**

ship and machinery automation and controls, alarm and monitoring systems, bridge systems and power management, regardless of manufacturer. Automation services will continue to be one of the future growth areas for our Services business.

### Training Services

As a supplier of complete power plants and ship power installations, we have recognized a clear need for training services, not only for training on engines, but also for auxiliary equipment, systems and personnel. We provide everything from traditional hands-on training in operations, maintenance, safety issues, propulsion and control systems training, to global resource management plan. The demand for training services is steadily rising, and in 2007 we opened a new Land & Sea Academy training centre in South Korea, the world's largest shipbuilding country, to provide training for customers' engineers. Other Land & Sea Academy training centres are situated in the USA, Finland, Philippines and India.

## Methods for improving environmental performance

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

- High potential
- Substantial potential
- Moderate potential

### Operations & Management Services

Service agreements are the most effective way to ensure the reliable and environmentally sustainable operation of a product. These range from supply agreements that ensure the supply of parts and materials to a specific location, training agreements where we help our customers to maintain their installations at optimum performance levels, global customer agreements where several vessels are covered, up to operation and maintenance agreements where Wärtsilä takes full control of the plant and guarantee overall performance.

For our power plant customers, operations and management agreements are more common, and we are responsible for ensuring that the installations meet set performance targets and lifetime criteria, freeing owners to concentrate on their core business.

Approximately 40% of new equipment sales in Power Plants include a service agreement. Although the shipping industry generally doesn't operate on completely outsourced service

agreements, Wärtsilä is prepared to offer these services as the industry develops in this direction. In November 2007, Wärtsilä and V.Ships, specialised in ship management, agreed to cooperate on the provision of a broad spectrum of technical services to marine industry, a partnership that ensures the best technical and economical performances of the ship equipment and peace of mind for customers.

### Services and sustainability

#### Retrofitted new technology

The lifetime support that we provide makes it possible to use old equipment for a longer time and in a more sustainable way. Developments in technology make it possible to apply new technical advances to old equipment, and upgrades are made to improve the economic and environmental performance, as well as the safety and reliability, of systems.

### Engine conversions

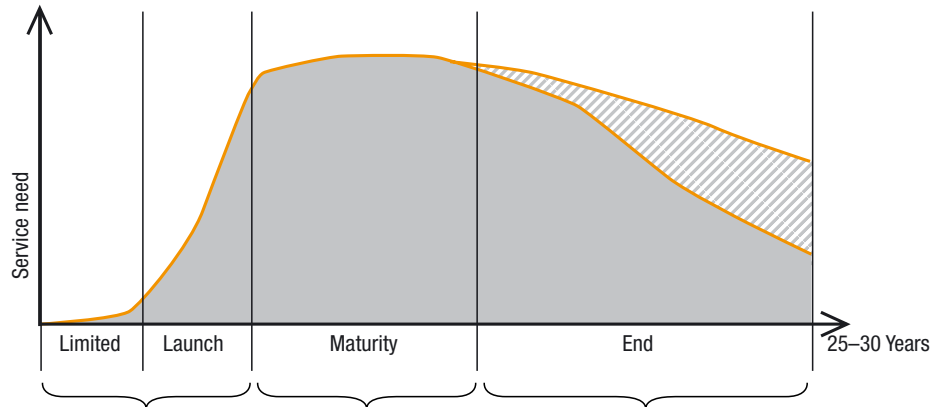
During the lifetime of an installation, fuel prices vary and environmental regulations often become more stringent. These factors affect the profitability of the investment and may result in a different load profile, or in the need to invest in a different emission control technology or change to another fuel. We provide engine conversions as a simple way to restore profitability and comply with environmental requirements.

#### Condition Based Maintenance (CBM)

CBM service is based on a unique combination of local inspections and remote monitoring of the mechanical condition and operating data of the plant. The system makes predictive maintenance possible, which in turn minimizes interruptions to operations, increases safety, and optimizes plant performance. Units linked to the CBM system are not serviced on a regular basis but service is based on real need.



## Typical customer needs during product lifecycle



- High technical support
- Customer Assistance
- New product training
- Monitoring
- Commissioning
- World class logistic
- Service agreement
- CBM
- Performance optimizer packages
- Specific assortment
- Upgrading packages
- Environmental solutions
- Safety solutions
- Fuel conversions

### Environmental technology

We develop and supply a wide range of solutions that enable customer installations to comply with prevailing environmental requirements. We offer solutions that make it possible to modify or regulate most engines in order to conform to the strictest environmental requirements. This applies to plant upgrades with secondary emission control technologies such as SCR, for power plant or marine applications.



# POWER PLANTS

An aerial night view of a city with mountains in the background. The city lights are visible, and the mountains are silhouetted against the dark sky. The overall scene is dark with warm city lights.

■ Our course is market leadership in defined segments.



## CASE POWER PLANTS

# Wärtsilä delivers dual-fuel baseload power plant to Trinidad and Tobago

Wärtsilä was awarded an EPC contract in November 2007 by Trinidad and Tobago Electricity Commission (T&TEC), to supply a dual-fuel power plant, which runs both on natural gas and light fuel oil. This flexible base load power plant will be the first natural gas reciprocating engine plant of its kind in the Caribbean region.

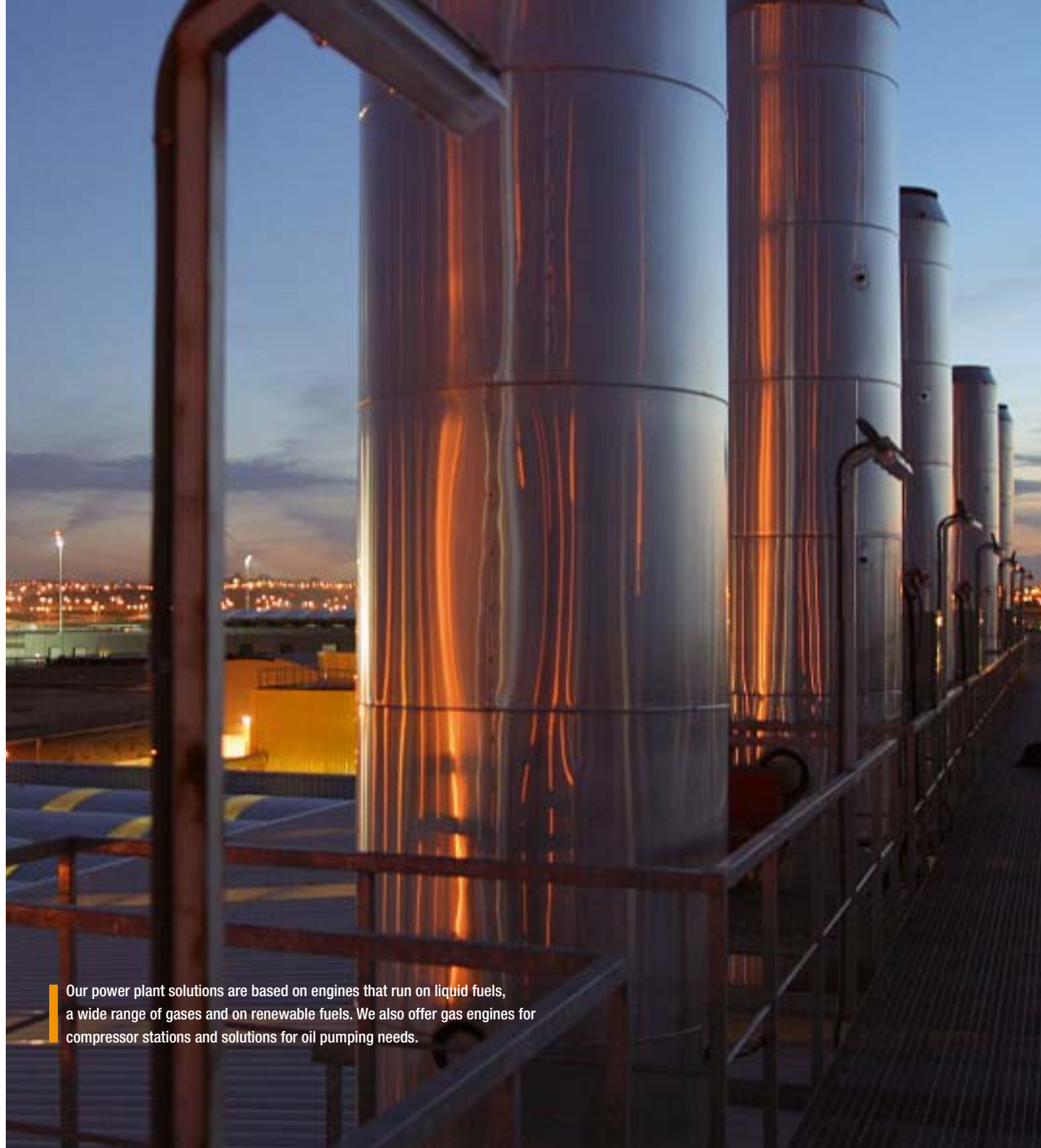
The Wärtsilä power plant will be commissioned in September 2009 and it will be located at the Cove Industrial Estate in Cove on the island of Tobago. The power plant will supply electricity to Tobago and also transmit power to the main island of Trinidad via two existing submarine cables. The Wärtsilä power generating facility will be producing a total of 64 MW. Wärtsilä will also operate the Cove plant for an initial period of five years under a full operations and maintenance agreement.

With clean-burning natural gas as the primary fuel, this new dual-fired, high-efficiency plant will augment the country's base load generation capacity and will fully meet Tobago's demand, presently at 40 MW, for at least the next ten years.

Wärtsilä has delivered several gas power plants to Colorado, California and Nevada.

# Power Plants – a leading supplier of decentralized power

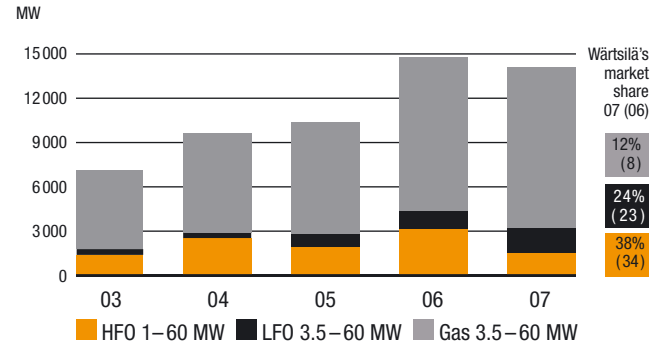
We aim to be the market leader in our defined segments which are flexible baseload power, industrial self-generation, grid stability and peaking, as well as the oil and gas industry.



Our power plant solutions are based on engines that run on liquid fuels, a wide range of gases and on renewable fuels. We also offer gas engines for compressor stations and solutions for oil pumping needs.



## Target markets per fuel 2003 – 2007



Note I: Wartsilä's gas power plant target markets have changed after the review period 2005, when Wartsilä stopped manufacturing and selling high speed engines (power range < 3.5 MW).  
 Note II: The LFO figure from 2006 onwards includes liquid biofuels.  
 Source: Diesel & Gas turbine worldwide, June 2006-May 2007.

The strength of Wartsilä's offering is based on technology leadership, a strong and broad product portfolio, high plant efficiency and fuel flexibility. These, combined with the ability to offer fast complete turnkey deliveries worldwide as well as lifecycle support, including full operations and maintenance packages, put us in a unique position in the power generation markets. Our global sales and services network give us the ability to engage our customers locally, and to tailor optimal solutions for them based on a solid understanding of the drivers behind each customer's respective needs.

Wartsilä's power plant solutions are based on engines that run on liquid fuels, a wide range of gases and on renewable fuels. For the oil and gas industry, we also offer gas engines for compressor stations and solutions for oil pumping needs. Many of our products have multi-fuel capability and all can be converted from one fuel to another.

### Demand drivers - Strong world economy growth boosts the need for electricity

As energy consumption grows, the demand for new power generation equipment is correspondingly spurred. At the same time, demand for replacement equipment for older capacity increases. High oil and gas prices and tightened environmental norms favour products that can offer the highest total efficiency. This clearly benefits Wartsilä's solutions.

Energy consumption growth rates remain strong in the developing world; this drives demand for our heavy fuel oil and

gas fired power plants. In the industrialized world, demand is mainly driven by the need for the stable, reliable, and flexible power that Wartsilä's solutions provide.

### Competitive situation and market position

The power plant market is highly fragmented. This is reflected in the competitive situation. In larger liquid fuel or gas fired projects, Wartsilä often competes against gas turbine technology, coal fired steam power plants and other manufacturers of reciprocating engines. Wartsilä power plant solutions also compete against the price of electricity in an existing grid. Solutions offering optimal economic and risk profiles are advantageous in these markets.

In the heavy fuel oil based power plant market, Wartsilä's competition is mainly other engine suppliers. We hold a leading position in this market and our competitive strength is the ability to provide complete turnkey power plants combined with fuel flexibility. In the gas power plant market our competitors are both gas engine and gas turbine suppliers.

## Customer segments

### Flexible Baseload

Wartsilä's flexible baseload power plants are supplied mainly to developing markets, islands, and remote areas. As electricity consumption grows in these regions, demand for new generation capacity increases steadily. Our customers in the flexible

### Customer segments

- Flexible Baseload
- Industrial self-generation
- Grid stability and peaking

baseload segment are utilities and independent power producers (IPP's). The characteristics of Wartsilä's solutions, such as low lifetime costs, reliability, quality, and flexibility in fuels, are factors influencing decision making within this

customer segment. Our operations and management services give us an added competitive advantage in this sector. Our flexible baseload power plants can operate on the full range of fuels, including light and heavy fuel oil, fuel water emulsions, natural gas, liquid biofuels as well as solid biomass. Multi-fuel operation is a clear advantage in this segment.

### Industrial self-generation

Wartsilä offers self-generation power plants for industrial customers for whom reliable energy supply and competitive costs, combined with 24/7 service ability, are essential in maintaining the competitiveness of their own manufacturing processes. Depending on fuel availability, the power plants provided to industrial customers can be run on light and heavy fuel oil, gas, liquid biofuels or solid biomass.

### Grid stability and peaking

Wartsilä provides solutions for ensuring stable energy production in the industrialized world where power generation deregulation and the increase of renewable power sources, notably

wind power have created the need to stabilize existing grids. Customers for stabilizing plants are usually independent power producers or electricity utilities. We offer customers dynamic and flexible product features, such as rapid start-up and ramp up to full load, as well as the capacity to operate at varying loads. Other competitive strengths include competitive capacity costs and 24/7 service. Gas turbines are the main competing technology for our stabilizing power plants, and continue to have a strong position especially in the US market. Wärtsilä's gas engines can in many operating conditions offer much better economics and operational flexibility.

## Power plants and sustainability

As energy consumption grows, the demand for new power generation equipment is correspondingly growing. At the same time fuel sources are diminishing and prices are increasing due to the scarce availability of resources. Increased environmental concerns and climate change is leading to a stronger focus on environmental issues and stricter environmental regulations within the power plants industry. For Wärtsilä this means that we are continuously developing and enhancing our solutions to meet even the strictest regulation and at the same time offering flexible solutions with high electrical efficiency to better meet the future need and demand for environmentally sound solutions.

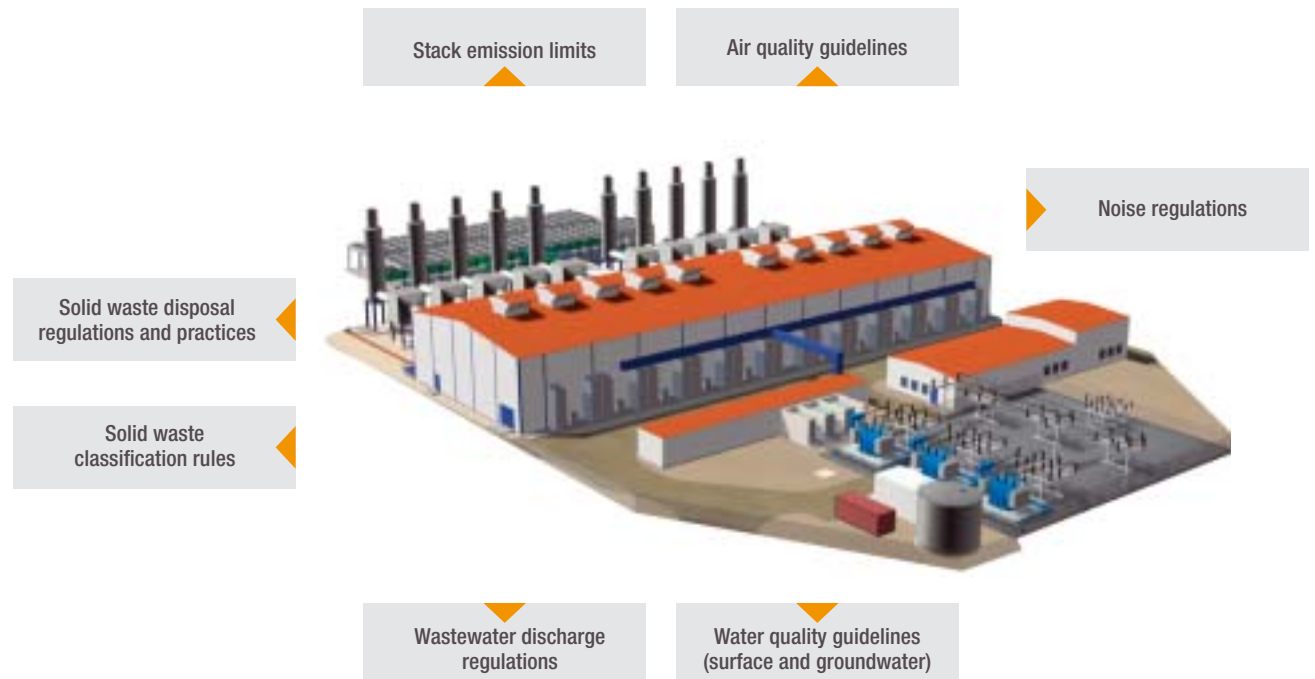
## Compliance with regulations

A core principle in the development of our power plants is to meet the guidelines of the World Bank. In recent years compliance with these guidelines has become more widespread because an increasing amount of financing institutions and credit agencies have committed to comply with these guidelines in their environmental policies. Currently the World Bank Guidelines are under review and stricter emission limits are expected. Wärtsilä's power plants are designed to enable lower emission levels as necessitated by ambient air quality, national regulations or project-specific issues.

## Flexibility

Flexibility is one of the main features of Wärtsilä's power plant solutions. In terms of scope of delivery, deliveries can vary from complete turnkey power plants to equipment supply. The high

## Environmental regulations – power plant operation



modularity of our products makes it easy for our customers to expand or modify their power plants to meet future needs. Fuel flexibility has many advantages for our customers through optimizing energy production costs by using low cost fuels, using available fuels, and by the ability to convert from one fuel to another. We are the technology enabler for power plants burning a wide range of gases and liquid fuels, including vegetable oils.

## High efficiency and cost competitiveness

Wärtsilä's engine driven power plants offer energy cost benefits that cannot be matched by other power plant technologies. Energy efficiency is important, not only in terms of energy economy, but also because it reduces both the use of limited natural resources and the emissions produced per unit of energy. Our power plants are operationally flexible and can easily be adapted to the needs of the electricity grid. The output of our

power plants can be regulated by varying the number of units in operation, and by optimizing their individual outputs. Rapid start-up, good load characteristics, and high efficiency also at partial loads, are among strengths that give Wärtsilä's solutions a clear competitive advantage in terms of cost competitiveness.

## Reducing emissions

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



## Emission reduction technologies

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

## Monitoring of emissions

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

# Wärtsilä Industrial Operations

We produce engines, generating sets, propellers, gears, seals, and bearings as integrated deliveries with a strong focus on customer segments. Our manufacturing operations are located in Europe and in Asia.

## Engine manufacturing model

Our engine manufacturing model focuses primarily on assembly, test-running, and on machining certain strategic components. This manufacturing model ensures flexibility, both in terms of engine portfolio as deliveries, and volumes. The process based manufacturing model can easily adapt to fluctuations in demand for different products and volumes.

## Delivery centres in Europe and Asia

Manufacturing of our medium-speed main engines is concentrated at two delivery centres in Vaasa, Finland and Trieste, Italy. Our auxiliary engines are manufactured in Vaasa, Trieste and in Shanghai, China. Manufacturing of our propulsion components primarily takes place in the Netherlands, Norway, UK, China, India and Japan. Low-speed main engines are very large and therefore difficult to transport, which is why they are built under license close to shipyards in various parts of the world. We currently have 13 licensees related to low-speed engines situated in Asia, South America and Europe.

## Sourcing

Flexibility in our manufacturing process is supported by our broad and committed supplier network. This network is today mainly situated in Europe, but we are investing in developing a strong supplier network in Asia and other low-cost areas. The booming market situation during the last years has led to scarce availability of certain key components, such as large forgings and castings. We have constantly developed our supplier network and relations in order to secure the long-term availability of key components.



Our engine manufacturing model focuses primarily on assembly, test-running and on machining certain strategic components.

## Investments in engine and propulsion manufacturing

During 2007, we made several investments in capacity – both in propulsion and engine manufacturing. Capacity investments at the Vaasa and Trieste delivery centres became operational in 2007 and will result in significant increases in capacity as well as efficiency. A line based manufacturing process has been implemented in these delivery centres.

To meet increasing demand in Asia, and in particular the growing shipbuilding market in China, we have established a joint venture with CSIC and Mitsubishi Heavy Industries to manufacture low-speed engines in China. Manufacturing will start in 2008.

We have established a 50/50 joint-venture with Hyundai Heavy Industries to manufacture our dual-fuel engines for the

LNG market in Korea. The factory will start operations at the end of 2008.

Strong growth and investment programs have been implemented within Propulsion operations, including expansion of production capacity in Zhenjiang and Wuxi in China, Drunen, in the Netherlands, Rubbestadsneset in Norway and Khopoli in India. Our key focus is to meet the strong customer demand, and to maintain and develop modernised and cost efficient manufacturing technologies.

## Sustainability aspects of Wärtsilä's products

Sustainability aspects of Wärtsilä's products are discussed in further detail in the Sustainability section of this report.



# 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 part of 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 delivery centres every second year. During 2007 the assessment was made in both of the two biggest delivery centres, Vaasa and Trieste where also new investments for increasing capacity were completed. The wider-ranging systematic update of operational risks covering all Wärtsilä's Businesses and its manufacturing operations has been continued in 2007. Task forces including members from each Business have been established for reducing major Group-wide risks. These teams will monitor inter alia the following risks: customer risk, competition and price risk, supplier and subcontractor risk, product and product liability risk, environmental risk, political and legal risk and property risk.

### Customer risk

Over three-quarters of global shipbuilding now takes place in

Asia. Wärtsilä has responded to this development by setting up new delivery centres in China and India and a new joint-venture engine company in China as well as in Korea. Both joint ventures will be operational during 2008. Wärtsilä sells the products to shipyards but also markets them to ship owners. 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. Power plant sales continue to be distributed evenly around the world, which has consequently reduced risks associated with specific customer groups or countries. Wärtsilä's Services Business has expanded both through acquisitions and organically. The strong business volumes of Wärtsilä's customers have further boosted service sales. Wärtsilä has over 10,000 customers and an active engine base of over 155,000 MW, which means

that dependency of one customer or customer segment is very insignificant.

### Competitive situation and price risk

Demand was strong in all the businesses during 2007, the orderbook rose to a record level and price levels strengthened. Ship Power's largest competitors in main engines are MAN Diesel and Caterpillar (MAK). No significant changes took place in the competitive situation. In the Propulsion Business the competition is more fragmented and varies by product segment. On the Power Plants side, the main competitors are the same companies mentioned above as well as other technologies, notably gas turbines. Wärtsilä's market position improved, especially in the gas power plant sector. During the review period competitiveness was still affected by component

## Wärtsilä's risk management organization 2007

Risks	Policy or other guideline*	Responsible body
Operative risks	Wärtsilä's strategy and business plans	Board of Management and Wärtsilä's Businesses
Supply chain risks	Supplier requirements and supplier relationship management	Wärtsilä's Businesses and Corporate Supply management
Technology risks	Patents and industrial rights, Product guarantees	Wärtsilä's Businesses and R&D 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 QHSE policy and OHS management system (OH&S 18001) Risk management policy	Wärtsilä's Businesses and human resources function
Data security risks	Data security principles	Wärtsilä's Businesses and IM function
Environmental risks	QHSE 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 and risk management function
Political risk	Risk management policy and guidelines	Wärtsilä's Businesses and risk management function
Financial risks	Treasury policy	Wärtsilä's Businesses and treasury function
Reputation risk	Code of Conduct	Wärtsilä's stakeholder relations and all Wärtsilä employees

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

availability and pressure on prices. The impact of currency fluctuations has so far been limited.

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 Corporate Supply Management function has been operative since 2006. Its purpose is to manage and control Wärtsilä's supplier network making sure the suppliers meet the expectations in terms of the performance. Hence the supplier performance is also continuously measured. A continuous deeper co-operation with suppliers has been initiated covering accident risks as well as sharing information on risk management issues and business continuity planning.

Even though the major suppliers have also increased their capacity in 2007, there is still a challenge concerning the capacity ramp up and delivery times of suppliers and subcontractors. There is also pressure on component prices mainly due to raw material cost development but also for building up capacity. To meet these challenges the Corporate Supply Management function has developed its activities by creating closer collaboration and relationships with its main suppliers, by emphasizing quality, cost, lead time and long-term delivery agreements and by sharing innovative solutions in order to drive down costs. In addition Wärtsilä has also increased the number of suppliers of certain critical components and its sourcing in emerging markets.

#### **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. The Risk elimination tool was implemented in 2007 and is currently used by R&D function in inhouse validation testing. The tool supports 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 deliveries. 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.

#### **Sustainability risks**

Sustainability risks, including environmental and social risks are monitored in the same way as other business risks, the main tool being Wärtsilä's Management System. Combined with active dialogue with stakeholders, the various tools of the Wärtsilä Management System – which include environmental and occupational health & safety management systems, Supplier Management system, 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.

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

Wärtsilä closely monitors the changes in environmental legislation and has an active dialogue with both customers and the authorities to ensure the ability to respond appropriately to changes in operating conditions and customer expectations.

#### **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 price risk**

#### **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, fuel efficient technologies and the availability of alternative fuels.

#### **Metals**

The Propulsion Business hedges its exposures to different metal prices including copper, nickel and aluminium. 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. Some key components are sourced with long-term contracts.

#### **Electricity**

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

### **Financial risks**

The financial risks are presented on page 113 in the notes to the financial statements, note 33.



# Corporate Governance principles

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 the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland, and the 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 ultimate decision making body in the company is the General Meeting of shareholders. It resolves issues as defined for General Meetings in the Finnish Companies Act and the company's Articles of Association. These include approving the financial statements, deciding on the distribution of dividends, discharging the company's Board of Directors and CEO from liability for the financial year, appointing the company's Board of Directors and auditors, and deciding on their 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 specified in Chapter 3a, §11 of the 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 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, 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 Board's committees

The Board of Directors annually appoints an Audit Committee, a Nomination and 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 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 financial statements.

The Audit Committee considers Wärtsilä'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 meetings.

#### **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, on the Committee's meetings to the Board.

#### **The Compensation Committee**

The Board appoints a 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, on the Committee's meetings to the Board.

#### **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 Group Vice Presidents heading the Ship Power, Power Plants, Services businesses and the Industrial Operations Division, the Chief Financial Officer, the Group Vice President, Legal Affairs & Human Resources and as of 1 March 2008 the Communications Director. 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 pages 36 and 38.

#### **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 39.

#### **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 39.

#### **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 fulfill 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.

##### **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. More information about the salaries and bonuses can be found in the Financial Review on page 111. 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 shares and possible options from previous option-schemes held by the President and CEO and the other members of the Board of Management, is given on page 36 and on the website at [www.wartsila.com](http://www.wartsila.com).

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

##### **Management incentive schemes**

The Board of Directors determines the incentive schemes for the President and CEO and other members of the Board of Manage-



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

The Group 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 1,400 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. More information about the bonus scheme can be found in the notes to the Consolidated Financial Statements on page 100.

The company has two stock option schemes for senior managers during the review period. The 2001 options, the subscription period of which ended 31 March 2007, covered 78 key personnel, and the 2002 options, the subscription period of which will end 31 March 2008, applied to 39 key personnel. More information on these schemes is provided on pages 108 and 126 of the Financial Review.

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

## Control systems

Responsibility for the management of the company and its proper organization lies with the Board of Directors. In practice it is the task of the President and CEO, assisted by the Board of Management, to ensure the proper organization of the company's internal supervision, risk management, internal audit and accounting supervision mechanisms. 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 performance 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 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 carries out special tasks assigned by the Board of Management.

The internal audit function covers all of the company's organizational levels and subsidiaries. An internal audit is undertaken in the main subsidiaries on an annual basis and in network companies with 3 year intervals. The internal auditors prepare an annual plan under which they 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 the 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. 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 ongoing 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.

## 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 they are made public.

## Fees paid in Wärtsilä B shares in 2007

Board of Directors	No. of shares
Chairman Antti Lagerroos	809
Deputy Chairman Göran J. Ehrnrooth	606
Heikki Allonen	404
Bertel Langenskiöld	404
Matti Vuoria	404
Maarit Aarni-Sirviö	404

## Corporate Governance in 2007

The Annual General Meeting was held on the 14 March. The decisions of the AGM can be found on our website.

### The Board of Directors

In 2007 the Board of Directors consisted of 6 members; Ms Maarit Aarni-Sirviö, Mr Heikki Allonen, Mr Göran J. Ehrnrooth, Mr Antti Lagerroos, Mr Bertel Langenskiöld and Mr Matti Vuoria. The chairman of the Board of Directors was Antti Lagerroos and Göran J. Ehrnrooth was the deputy chairman. The Board established 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 Maarit Aarni-Sirviö, Heikki Allonen and Matti Vuoria. All the members are independent of the company and two are independent of significant shareholders. The Audit Committee met 4 times in 2007.

#### Nomination Committee:

Chairman Antti Lagerroos; Members Göran J. Ehrnrooth and Matti Vuoria. All the members are independent of the company and two are independent of significant shareholders. The Nomination Committee met 1 time in 2007.

#### Compensation Committee:

Chairman Antti Lagerroos; Members Heikki Allonen and Matti Vuoria. All the members are independent of the company and one is independent of significant shareholders. The Compensation Committee met 1 time in 2007.

## Board of Directors share ownership in Wärtsilä 31 December 2007

Board of Directors	Series A	Series B
Antti Lagerroos	-	14 359
Change in 2007	-	+809
Göran J. Ehrnrooth	4 222	54 706
Change in 2007	-	+45 606
Heikki Allonen	-	2 303
Change in 2007	-	+404
Bertel Langenskiöld	-	4 525
Change in 2007	-	+404
Matti Vuoria	-	1 357
Change in 2007	-	+404
Maarit Aarni-Sirviö	-	704
Change in 2007	-	+404

### Fees paid to the Board of Directors

In 2007 the members of the Board of Directors were paid the following fees:

- the chairman 100,000 euros
- the deputy chairman 75,000 euros
- each member 50,000 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 money.

The six members of Wärtsilä's Board of Directors, none of whom are employees of the company, were paid altogether 433,000 euros for the financial period that ended 31 December 2007. The Board's members are not covered by the company's stock option scheme or bonus scheme.

### The Board of Management

In 2007 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, personnel growth, business strategy as well as issues relating to development of competitiveness. The further development of production volumes and capacity as well as and key

## Board of Management share ownership in Wärtsilä 31 December 2007

Board of Management	Series A	Series B
Ole Johansson	2 550	21 700
Change in 2007	-	-
Raimo Lind	1 295	1 545
Change in 2007	+500	-
Tage Blomberg	2 025	-
Change in 2007	-	-
Jaakko Eskola	-	5
Change in 2007	-	-195
Lars Hellberg	-	-
Change in 2007	-	-
Kari Hietanen	-	72
Change in 2007	-	-
Christoph Vitzthum	150	300
Change in 2007	-	-

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 as well as developing internal global processes and working practices.

Information on the salaries and remuneration to the Board of Management and the president and CEO can be found in the Financial Review on page 111.

### Auditors

In 2007 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 companies amounted to EUR 1.8 million in 2007. Consultancy fees unrelated to auditing duties paid to the auditors totalled EUR 3.4 million. These latter fees concerned acquisitions and consultation on taxation matters.



# Board of Directors



## Mr Antti Lagerroos

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

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

**Other positions of trust:** *Ilmainen Mutual Pension Insurance Company*, Member of the Supervisory 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.

## Ms Maarit Aarni-Sirviö

Independent of the company and significant shareholders. Born 1953, MSc (Tech.), MBA. Vice President, Business Unit Phenol, Borealis Group. Member of the Board of Wärtsilä Corporation since 2007.

**Primary working experience:** Different positions in *Borealis Group* since 1994 and in *Neste Oyj* 1977–94.

**Other positions of trust:** *Borealis Polymers Oy*, *Rautaruukki Oyj* and *Ponsse Oyj*; Member of the Boards.

## Mr Heikki Allonen

Independent of the company, dependent on significant shareholder. Born 1954, MSc (Eng.). President & CEO of *Fiskars Corporation* until the end of year 2007. Member of the Board of Wärtsilä Corporation since 2004.

**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 Bertel Langenskiöld

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

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

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

## Mr Matti Vuoria

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

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

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

# Board of Management



■ Ole Johansson, Christoph Vitzthum, Lars Hellberg, Tage Blomberg, Raimo Lind, Kari Hietanen, 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, *Autokumpu Oyj*; Board Vice Chairman, *Varma Mutual Pension Insurance Company*; Board Vice Chairman, *Confederation of Finnish Industries EK*; Chairman of the *Finnish-American Chamber of Commerce*; Member of the *Supervisory Board of the Finnish Business and Policy Forum EVA*.

## 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; *Scantrailer 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:** Board Vice Chairman, *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 Oy*, 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; *Industrialization Fund of Finland*, Corporate Analyst 1984–86; *National Banking Group*, various managerial positions in international project finance 1986–97; *PCA Corporate Finance*, Executive Director 1997–98; *Wärtsilä Development & Financial Services Oy*, President 1998–2005; *Wärtsilä Corporation, Power Plants*, Vice President, Sales & Marketing 2005–06.

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

## Mr Lars Hellberg

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

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

## 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 2000–01; *Wärtsilä Corporation*, Vice President, Legal Affairs 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.

## Atte Palomäki

Atte Palomäki has been appointed Group Vice President, Corporate Communications and a member of the Board of Management, as of March 1, 2008. Born 1965, MSc (Pol.).



# Corporate Management

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

## **Mr Yngve Bärgård**

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 Per Hansson**

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

## **Mr Roger Holm**

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

## **Mr Heikki Horstia**

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

## **Mr Johan Jägerroos**

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

## **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.).

# Management Teams

## **Ship Power**

### **Mr Jaakko Eskola**

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

### **Mr Lars Anderson**

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

### **Mr Fred van Beers**

Vice President, Special Vessels. Born 1962, Bachelor's degree, Merchant Engineer & Bachelor degree BtB Marketing.

### **Mr Arne Birkeland**

Vice President, Technology. Born 1966, MSc (Business).

### **Mr Carl-Henrik Björk**

Vice President, Cruise & Ferry. Born 1947, Marine Engineer.

### **Mr Timo Koponen**

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

### **Mr Magnus Miemois**

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

### **Mr Henrik Wilhelms**

Vice President, Marketing & Sales. Born 1965, BSc (Mech. Eng.).

## **Services**

### **Mr Tage Blomberg**

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

### **Mr Pierpaolo Barbone**

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

### **Mr Stefan Fant**

Vice President, Project & Contract Management. 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.

### **Mr Stefan Nysjö**

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

### **Mr Mikko Ruohisto**

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

### **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 Nauman Ahmad**

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

### **Mr Tore Björkman**

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

### **Mr Frank Donnelly**

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

### **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, Middle East and Asia. Born 1955, BSc (Chemical Eng.).

### **Mr Vesa Riihimäki**

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

## **Industrial Operations**

### **Mr Lars Hellberg**

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

### **Mr Stefan Damlin**

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

### **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 Jari Salo**

Vice President, Delivery Centre Propulsion. Born 1963, MSc (Eng.).

### **Mr Martin Wernli**

Vice President, Delivery Centre 2-stroke.

President of Wärtsilä Switzerland Ltd. Born 1960, JD Attorney at Law.

# Contents

- 1 Business review**
- 40 Sustainability**
- 42 Wärtsilä and sustainability
- 48 Economic performance
- 52 Environmental performance
  - 54 Products, R&D and the environment
  - 60 Environmental performance indicators
- 64 Personnel and social performance
- 72 Report scope
- 72 Reporting profile
- 73 Independent assurance report
- 74 GRI content index
- 76 Financial review**

We create value for our stakeholders and enable our customers to develop their business in a sustainable way. Our daily operations are conducted in a responsible way.



An aerial photograph of a city at sunset. A large, prominent mountain peak is visible in the background, with the sun setting behind it, creating a bright glow and lens flare. The city below is densely packed with buildings and green spaces. The sky is a mix of orange and yellow, transitioning to a lighter blue at the top.

Our course is sustainability



# Wärtsilä and sustainability

Sustainability plays a central role in Wärtsilä's business environment. 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 applies global guiding principles e.g. QHSE policy and Code of Conduct, which together with the values ensure a harmonized way of working towards sustainable development. The Corporate Manual includes, in addition to the above, a description of the company's operating procedures, responsibilities and the management system structure. Wärtsilä's governance and risk management principles as well as the main sustainability risks are described in the Business Review of this report.

## Wärtsilä's impact on sustainability

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.

From a sustainability impact point of view the product related environmental issues are the most significant aspects for Wärtsilä. The use of Wärtsilä's products has environmental

impacts both locally and globally. Other dimensions of sustainability have mainly local impacts.

## Sustainability impact

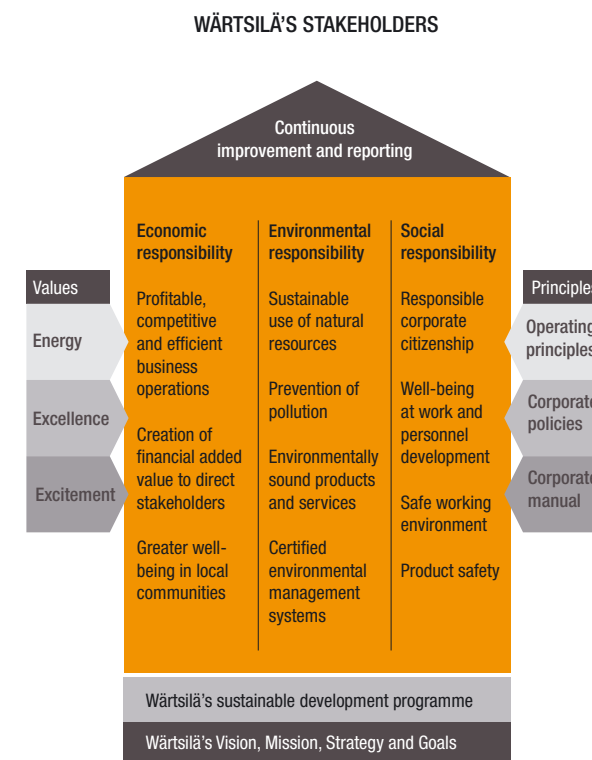
	Local	Global
Economic	X	
Environmental		
-Product related	X	X
-Operational	X	
Social	X	

## Wärtsilä's focus on Sustainability

### 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

## Wärtsilä and sustainability



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 life-cycle environmental impacts of its products and to reduce these impacts through proactive research and development. Continuous improvement of environmental performance is at the same time a challenge and an opportunity. Wärtsilä continuously develops and improves its operations with the help of certified environmental systems. Strong focus on environmen-

tal performance in R&D and product development reduces the environmental impacts of products. The climate change and other environmental concerns increase the demand of environmentally sound products.

### Social responsibility

Social performance involves following good practices and procedures in stakeholder relations. This requires continuous co-operation with suppliers, partners and local organizations. The Code of Conduct sets the boundaries for Wärtsilä's busi-

## Summary of key figures

Performance indicators <sup>1</sup>	2007 <sup>6</sup>	2006 <sup>5</sup>	2005 <sup>3</sup>	2004 <sup>2, 4</sup>	2003 <sup>2</sup>
<b>Economic</b>					
Net sales (EUR million)	3 763	3 190	2 639	2 478	2 357
Value-added distributed to stakeholders (EUR million)	1 187	1 156	847	839	691
Retained earnings for business development (EUR million)	-64	257	-43	111	10
R&D expenses (EUR million)	122	85	70	73	70
<b>Environmental</b>					
Total energy consumption (TJ)	2 595	1 837	1 881	1 723	2 251
• Electricity consumption (MWh)	134 543	120 782	123 857	112 324	112 806
• Heat consumption (MWh)	40 085	104 381	102 265	117 684	134 944
• Light fuel oil (t)	5 816	6 825	5 232	4 474	4 862
• Heavy fuel oils (t)	16 237	8 147	10 743	7 169	20 146
• Natural gas (t)	22 379	10 300	10 079	9 625	6 785
• Other fuels (t)	1 380	145	135	188	146
• Orimulsion® (t)	0	0	0	0	3 275
Total water consumption (1 000 m <sup>3</sup> )	11 160	5 794	7 328	7 207	8 710
• Consumption of domestic water (1 000 m <sup>3</sup> )	634	739	626	606	576
• Consumption of cooling water (1 000 m <sup>3</sup> )	10 526	5 055	6 702	6 601	8 134
Emissions of nitrogen oxides (t)	1 348	945	859	1 174	696
Emissions of carbon dioxide (t)	101 705	71 092	70 771	66 586	98 419
Emissions of sulphur oxides (t)	471	206	260	117	310
Particulates (t)	30	13	15	11	24
VOC (t)	79	97	57	47	62
Non-hazardous waste (t)	32 142	29 513	22 845	19 587	23 608
Hazardous waste (t)	7 472	5 308	4 296	3 913	5 835
<b>Social</b>					
Training days (days/employee)	3.3	3.3	2.9	3.1	2.9
Number of lost-time injuries	444	435	370	382	467
Lost-time injuries (number/million working hours)	14.6	18.0	16.8	16.6	21.5
Absence rate (% of total working hours)	2.3	2.7	2.6	3.1	3.0

<sup>1</sup> 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.

<sup>2</sup> The 2003 and 2004 figures include the third-phase companies, which are presented in the previous reports. The third reporting phase includes all Wärtsilä companies except those mentioned in the Report Scope section.

<sup>3</sup> The data for 2005 include all Wärtsilä companies except those mentioned in the Sustainability Report 2005 Scope section.

<sup>4</sup> The accounting principle for calculating research and development costs was changed in 2004.

<sup>5</sup> The data for 2006 include all Wärtsilä companies except those mentioned in the Report Scope section.

<sup>6</sup> The data for 2007 include all Wärtsilä companies except those mentioned in the Report Scope section.



Control room at gas power plant delivered by Wärtsilä in Malanpur Industrial Area. The power plant is the first gas power plant in northern India.

ness 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 Wärtsilä's position as a desirable employer. Product safety means responsibility towards the company's customers and its own personnel. Alongside compliance with safety requirements, essential aspects of product safety also include product support and training. Promoting good social performance requires seamless collaboration throughout the Group network.

### Sustainability performance

Wärtsilä Board of Management has the overall responsibility of the sustainability performance. The Board of Management defines the sustainability targets and monitors the performance against these set targets. In 2007 Wärtsilä's Board of Management decided to include the sustainability issues as part of management reviews in Wärtsilä Board of Management and Business Management Teams.

## Code of Conduct in brief

### 1. Compliance with the law

In all its countries of operation Wärtsilä 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

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

### 4. Conflicts of interest

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

### 5. The environment

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

### 6. Occupational health and safety

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

### 7. Suppliers

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

### 8. Implementation

Wärtsilä 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](http://www.wartsila.com).



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



### Wärtsilä tools for Sustainability

- Vision, Mission and Strategy
- Corporate policies and principles: QHSE policy and Code of Conduct
- Corporate Manual
- Management systems
  - Quality
  - Occupational Health and Safety
  - Environment
- Management reviews
- Sustainability target setting
- Business development
  - Due diligence
  - Environmental surveys
- Supplier requirements and management system
- Sustainability reporting

### Voluntary commitments

In addition to complying with the corporate principles Wärtsilä Corporation additionally applies an agreement signed in 2008 whereby Finnish industry voluntarily endeavours to use energy more efficiently. Wärtsilä North America Inc. has joined the Customs Trade Partnership Against Terrorism (C-TPAT) agreement signed in 2003.

### Wärtsilä's management system

Wärtsilä's management system aims to generate added value for Wärtsilä's various stakeholders, achieve the company's strategic objectives, manage operating risks and enhance Wärtsilä's performance through the continuous improvement process. The system includes a range of tools, such as systems for

managing quality, the company's environmental responsibilities and occupational health and safety. Management reviews are conducted at various levels of the organization to monitor the effectiveness of the system, the achievement of targets and the development of key performance indicators.

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

### Management systems

	Environment ISO 14001	Quality ISO 9001
Proportion of Wärtsilä companies with certification	55%	77%

A further 23 companies have OHSAS 18001 certification.

### Business Process Management

The Wärtsilä corporate business processes, including business information and supporting business applications, are





Wärtsilä's Suppliers' Day 2007 was held in Vaasa in Finland. During the day the Supplier Awards were granted to eight companies.

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.

### Product liability

Wärtsilä endeavours to develop environmentally sound, reliable and safe products. Wärtsilä supports its customers throughout

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

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

and the safety requirements of other relevant classification bodies. 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 aim is 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.

## 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 and Innovation Award, Customer Care Award	Employee satisfaction surveys
Owners, investors	Management meetings with investors, financiers and analysts, general meetings, information meetings, stock exchange and press releases, annual and interim reports, capital markets days, the internet, investor relations surveys, sustainability questionnaires	Investor relations surveys, Sustainability indexes
Suppliers	Open and active dialogue between the sourcing organization and suppliers, supplier management system, Supplier Days, Supplier of the Year Award	Supplier assessments
Society	Reporting to, and co-operation with, public officials on issues such as the environment and occupational health & safety, Open Doors days, sustainability reports, corporate presentations, local communications, the internet	Stakeholder feedback, corporate image surveys
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), European Marine Equipment Council (EMEC), Cogen Europe and VDMA	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, Board membership and participation in activities
Other	World Alliance for Decentralized Energy WADE European Federation for Quality Management EFQM	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 our ability to satisfy the expectations of our 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 we operate.

In 2007 the continuing favorable market situation and our own success supported our strategy of profitable growth. Favorable profit development and a strong balance sheet supports our strategy also in the future. Our annual growth target of net sales is 6-7% over the cycle. In 2007 our profitability target (EBIT%) was revised to 8-10% of net sales over the cycle with a range of +/-2%.

Wärtsilä's net sales totalled EUR 3,763 in 2007. Europe contributed 39%, Asia 38%, the Americas 14% and Africa 9% to Wärtsilä's overall net sales. Our profitability improved to EUR 379 million, a growth of 45%.

## Customers

Wärtsilä creates added value for its customers by providing products, solutions and services that fulfil their needs and expectations. The development of high-quality, reliable and environmentally sound solutions and services depends on long-

term collaboration and continuous interaction with customers. We provide our customers with service throughout the product lifecycle, thus ensuring optimal performance during the product's lifetime. The modernization of installed products can also extend their service life.

## Suppliers

Suppliers play a significant role in our delivery process. We aim to deepen the partnerships with our suppliers in order to ensure that both parties mutually understand, and are able to respond

to, our strict process and product requirements. Apart from financial benefits, partnerships create added value for suppliers through the knowledge and development support we offer them. Successful partnership can also assist a local supplier in expanding internationally by becoming a part of our global supply chain.

In 2007 the value of goods, materials and services purchased by Wärtsilä was EUR 2,576 million. Wärtsilä has more than 3,700 active suppliers, most of whom are located in Europe where we have our main production units. We are also continuously investing in developing a strong network in Asia.

## Added value distributed to Wärtsilä's stakeholders

MEUR		2007	2006	2005	IFRS 2004	2003
Customers	Net sales	3763	3190	2639	2478	2357
Suppliers	Cost of goods, materials and services purchased	-2576	-2034	-1791	-1640	-1666
	Value-added	1187	1156	847	839	691
	Distributed to stakeholders					
Distribution of value-added						
Employees	Wages and salaries	592	511	434	457	448
Public sector	Taxes and social dues	242	213	150	184	111
Creditors	Interest on debt and borrowings	8	7	23	4	16
Shareholders	Dividends	408	167	283	83	106
Communities	Donations given	1	1			
For business development		-64	257	-43	111	10



## CASE VAASA

# Investment supports wealth creation in local community

**Location:** Vaasa, Finland

**Company:** Wärtsilä Finland Oy

**Investment:** 30 MEUR

**New employment:** 140

**Investment type:** Factory enlargement project

- New facilities for line based W32 & W34 engine production
- New centralized logistics center
- New machining capacity for big castings
- New facilities for engine finishing

The new line-based concept enables engine production to be adapted to market demands in a cost efficient way.

The investment ensures increased productivity and cost efficiency for the machining of big castings. Similarly, a new centralised logistic centre provides the conditions high performance logistic operations require.

The investment also secures the engine finishing capacity needed to match increasing production volumes.

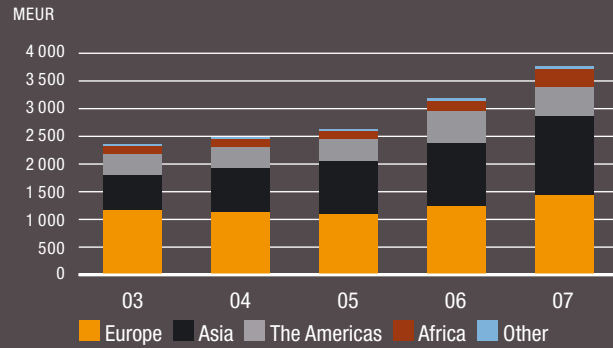
Overall, the impact on the local community has been positive and, due to increased employment as a result of this investment, can be viewed as being long-term.

Wärtsilä's supply chain has invested, both locally and globally, in new machining capacity, and has recruited more personnel. This has been necessary in order to meet both the increasing need for components, and Wärtsilä's high demands on quality and delivery accuracy.

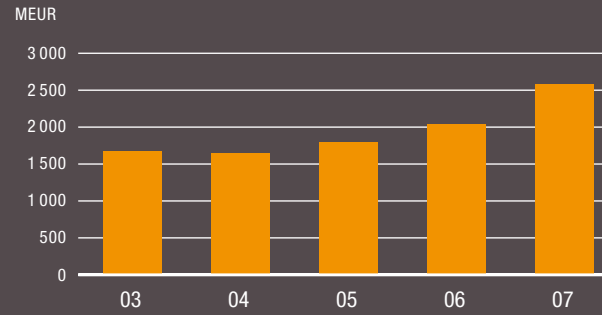
"This investment represents the biggest single improvement in quality, capacity and efficiency ever made at the Delivery Centre Vaasa"

–Mr Juha Kytölä, President, Wärtsilä Finland Oy

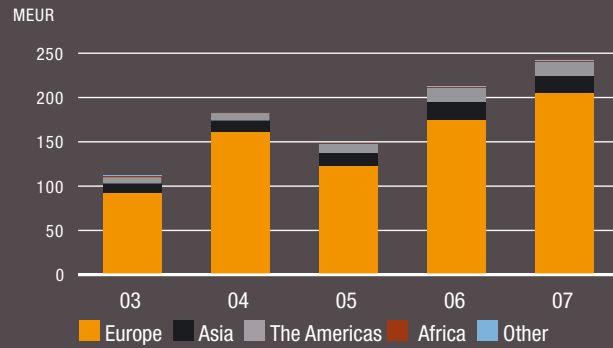
### Net sales by market area



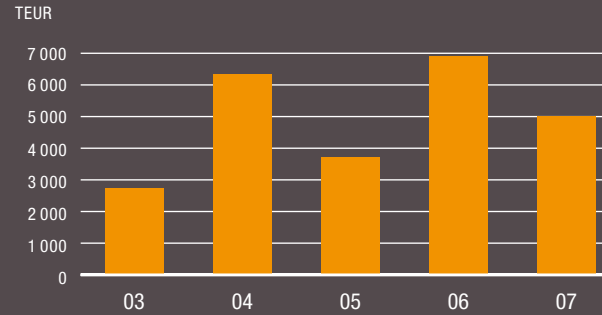
### Cost of all goods, materials and services purchased



### Taxes and social costs by market area

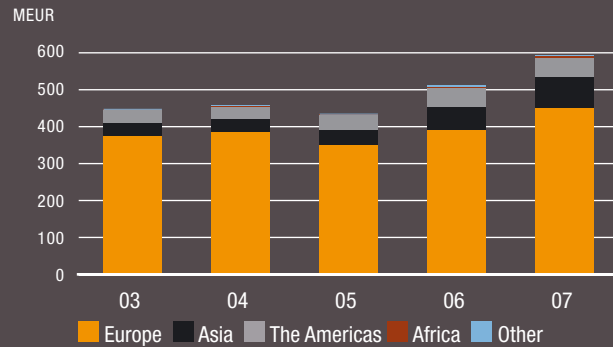


### Subsidies received from the public sector<sup>1</sup>

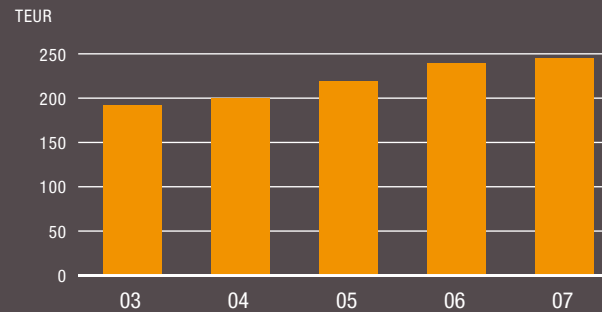


<sup>1</sup> The 2003 figures include the data from 10 major Wärtsilä companies, the 2004–2006 figures from 12 major Wärtsilä companies and the 2007 figures from 14 major Wärtsilä companies.

### Salaries & wages by market area



### Net sales/employee





## Employees

At the end of 2007 Wärtsilä had 16,336 employees worldwide. We also employed thousands of people indirectly through our supply chain. In order to be able to recruit competent and motivated people, we endeavour to offer employees competitive salaries, opportunities for continuous personal development and a good working environment. Developing employee skills and competences is of critical importance both for our business performance and for the development of the employees.

Salaries totalled EUR 592 million in 2007. This figure includes basic salaries as well as payments based on various incentive schemes, which cover some 60% of the total workforce.

## Pension Cover

The pension cover is based on the legislation and agreements in force in each country. In Finland most of the pension obligations are covered by the Employee Pensions system (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 practise in each country. Authorized actuaries in each country have performed the actuarial calculations required for the defined benefit plans. More information on the Group's pension obligations can be found in the Financial Review, Note 21. Pension obligations.

## Wage levels

Wärtsilä applies and follows in all countries the local employment legislation and respects the local collective labour agreements, which often define the minimum wage levels. In addition to that, entry level salaries are benchmarked against the market references by function and educational qualification. Laws and regulations give the minimum level, but often the actual salaries exceed these levels. Total compensation package is tailored for each country aligned with both corporate rewarding guidelines and local market practices. The base salary is set to meet market conditions, the demands of the job and individual competence and performance.

## Hiring principles

In principal all open vacancies are published both internally and externally, and if there is no specific reason, like competence transfer need from other countries, to hire expatriate or foreigner to the position, local candidates are hired. This principle also applies to senior management. Senior management includes global business and corporate management and local company management positions.

## Public sector

Wärtsilä pays various social dues and taxes to the governments of different countries. Income taxes and social dues in the financial period 2007 were EUR 242 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 2007 was EUR 5 million and they were mainly related to R&D projects such as the major HERCULES cooperative research project.

## Creditors

In 2007 Wärtsilä's net financial items totalled EUR -8 million. At the end of the year Wärtsilä's net interest bearing loan capital amounted to EUR -27 million, the solvency ratio was 45.9% and gearing was -0.01.

## Shareholder value

Dividends totalling EUR 408 million will propose to be paid to the company's shareholders. Our dividend policy is to pay a dividend equivalent to 50% of its operational earnings per share. The dividends paid per share are presented in notes to the financial statements. Earnings per share (EPS) was EUR 2.74 and Wärtsilä's market capitalization at the end of 2007 was EUR 5,023 million.

## Community support

At the national level, we provide financial support for a number of national, cultural and social activities. The Board of Directors has supported activities focused on children and young people, national defence, disabled war veterans, and medical and technical research. Wärtsilä's Board of Directors contributed altogether EUR 70,000 to these activities in 2007.

## Donations to good causes by the Board of Directors

TEUR	2007	2006	2005	2004	2003
Total	70	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 organizations<sup>1</sup>

TEUR	2007	2006	2005	2004	2003
Total	485	614	344	385	307

<sup>1</sup> The 2003 figures include the data from 10 major Wärtsilä companies, the 2004–2006 figures from 12 major Wärtsilä companies and the 2007 figures from 14 major Wärtsilä companies.

## Wärtsilä and climate change

Wärtsilä Italia S.p.A is the only subsidiary that falls into the scope of EU Emission Trading Scheme (ETS) because of the heating plant of the factory. EU ETS has not had any impact on profitability.

Wärtsilä's main responsibility concerning the climate change is to develop and provide products, solutions and services that enable our customers to reduce their greenhouse gas (GHG) emissions. We also support our customers to utilize the Kyoto Flexibility Mechanisms (JI and CDM) in their power plant projects. More information about Wärtsilä's solutions for climate change can be found in the Environmental Section.

The potential business risks related to climate change and Wärtsilä's products are presented under the sustainability risks in the Risk Management chapter.

## Wärtsilä in sustainable development indexes

Wärtsilä has been admitted to the Kempen/SNS Smaller Europe SRI index, the Ethibel Investment Register and the Ethibel Pioneer Sustainability Index and ASPI Eurozone® Index.

# Environmental performance

The improvement of environmental performance is the cornerstone of Wärtsilä sustainability programme, and it includes both the product performance and operational performance.

Continuous improvement of environmental performance in the company's operations requires the organization to work systematically year on year. This work is guided by our strategy and its environmental targets, Code of Conduct and Policy for Quality, Occupational Health and Safety and Environment. 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 continuously develops and improves its operations and products with the help of certified environmental systems. Our principle is to apply certified Environmental Management Systems based on ISO 14001 in all Group companies. Our environmental systems cover all the operations of its subsidiaries, which means that we are able to promote environmental protection and reduce adverse impacts on a wide front.

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. The company's subsidiaries set their own goals and targets covering significant environmental aspects of their operations and monitor the overall performance of the management systems.

At the end of 2007 33 Wärtsilä companies had operated with a certified environmental management system. These certified environmental management systems cover roughly 82% of Wärtsilä's total workforce.

## Wärtsilä Policy for Quality, Health & Safety and the Environment

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

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

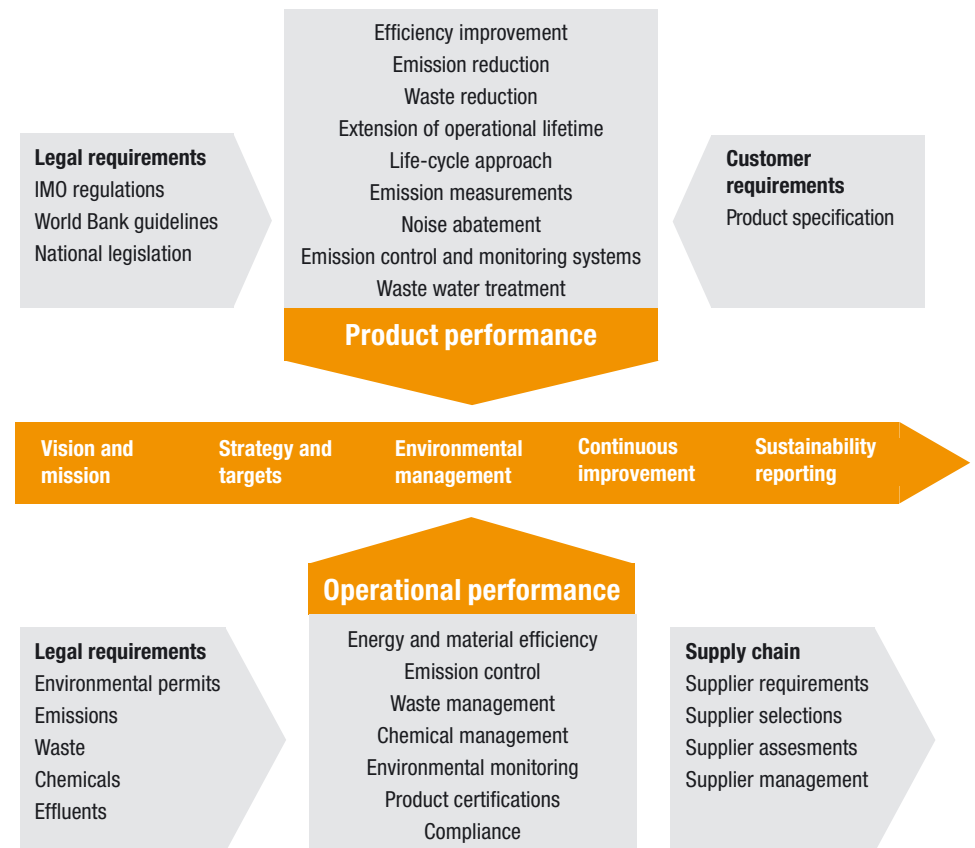
We continually improve our performance and reduce adverse environmental impact, through objectives set by management, to satisfy our customers and other stakeholders.

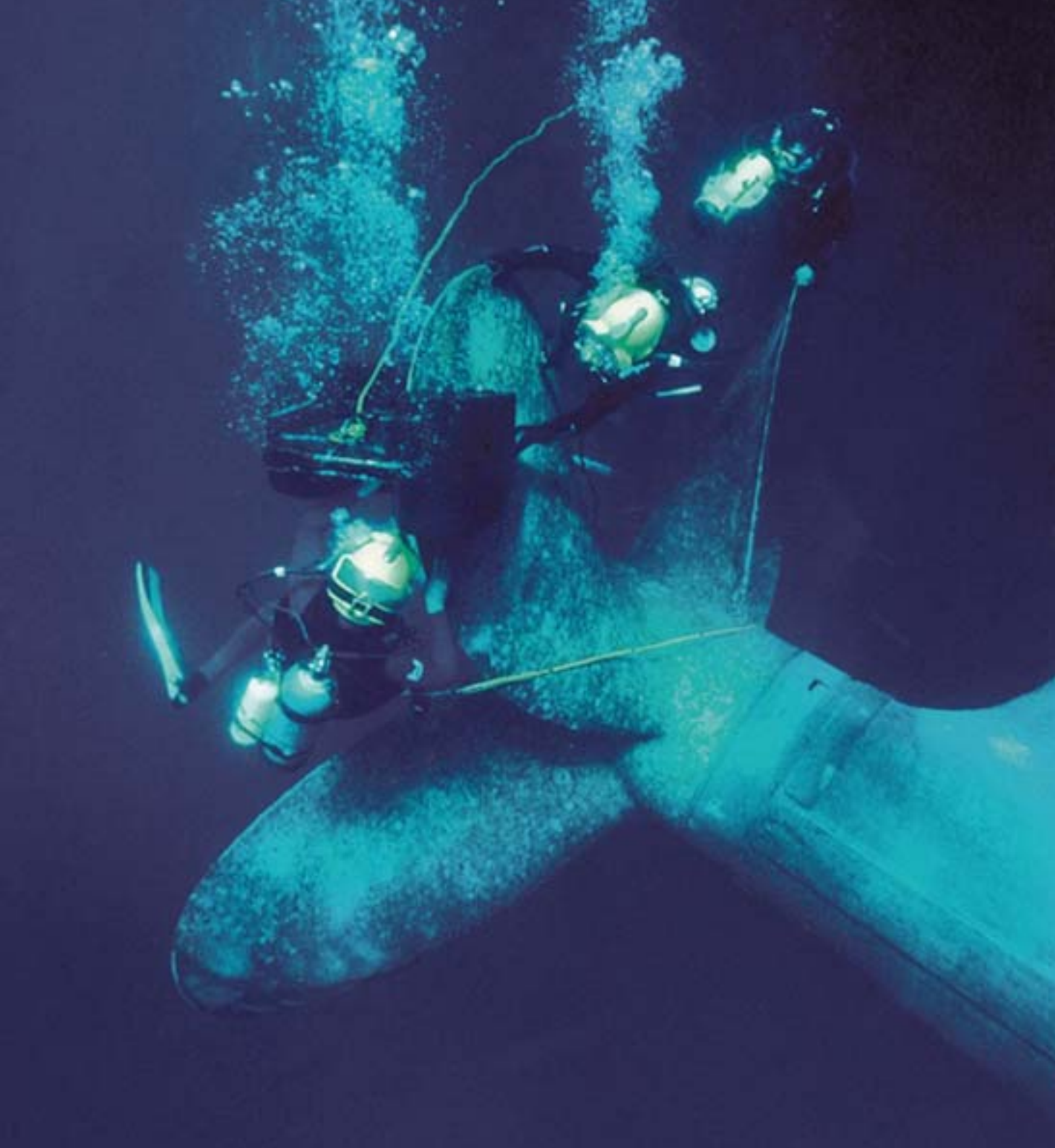
Our business premises provide a safe and healthy working environment for our employees and partners.

Our skilled organization acts as a responsible global citizen.

*Wärtsilä's Board of Management approved the policy in January 2007.*

## Environmental management in Wärtsilä





## CASE ENERGY EFFICIENCY PROGRAMME

# Commitment to reduced energy consumption

**Company:** Wärtsilä Corporation

**Scope:** Improving the energy efficiency in our operations

**Coverage:** All the Group Companies

**Target:** 10% savings in energy consumption by 2016 compared to energy consumption in 2005.

In Wärtsilä's continuous effort to improve operational performance and combat climate change the Wärtsilä Board of Management has decided that the Group commits to reduce its own energy consumption by at least 10 % in terms of absolute consumption (GWh) by 2016 compared to mean energy consumption in 2005. The energy consumption includes heat, electricity and fuels used for energy production and testing.

As a consequence, Wärtsilä companies must commit to continuous improvement in energy efficiency and promotion of renewable energy sources. All the companies are responsible for executing the energy efficiency programs in defined time-schedule and monitoring the performance.

"This commitment is part of our sustainability programme and is the first common environmental target for all Group companies."

—Mr Kari Hietanen, Group Vice President, Legal Affairs & Personnel, Wärtsilä Corporation



## Products, R&D and the environment

Sustainable development requires continuous investment in technology development and an on going 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 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.

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 sustainability viewpoint, the main themes for developing the business environment are the development of legislation, the availability and price of natural resources – especially fossil fuels, climate change, pollution of the environment, and a general change in attitude. Solutions to the challenges of sustainable development for their part are largely influenced by technological development, and by the ability and willingness to apply new technology.

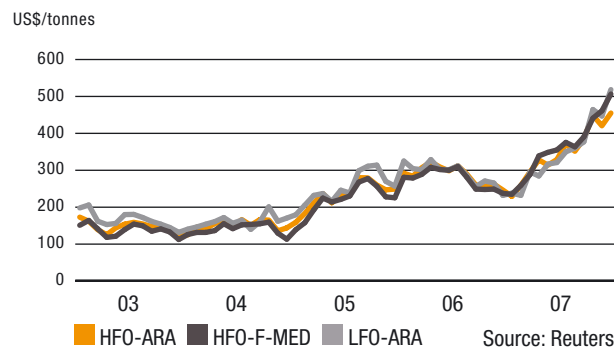
### International legislation and initiatives

In Wärtsilä's business, environmental pollution is regulated at the international level mainly by the International Maritime Organization (IMO) and the World Bank. Other important environmental restrictions that affect Wärtsilä's products are the US EPA and the German TA-Luft regulations that are often applied to gas engine plants, and the emission limits on diesel engines

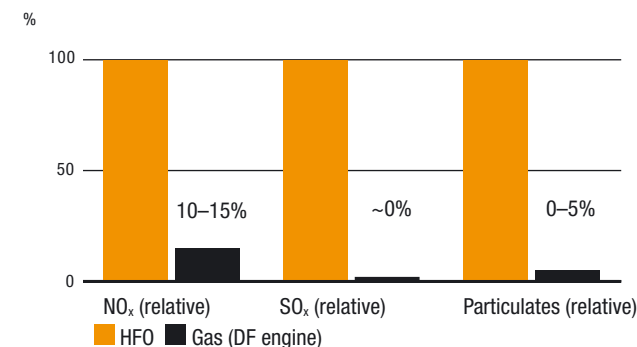


Gas power plant delivered by Wärtsilä in Madurai, India.

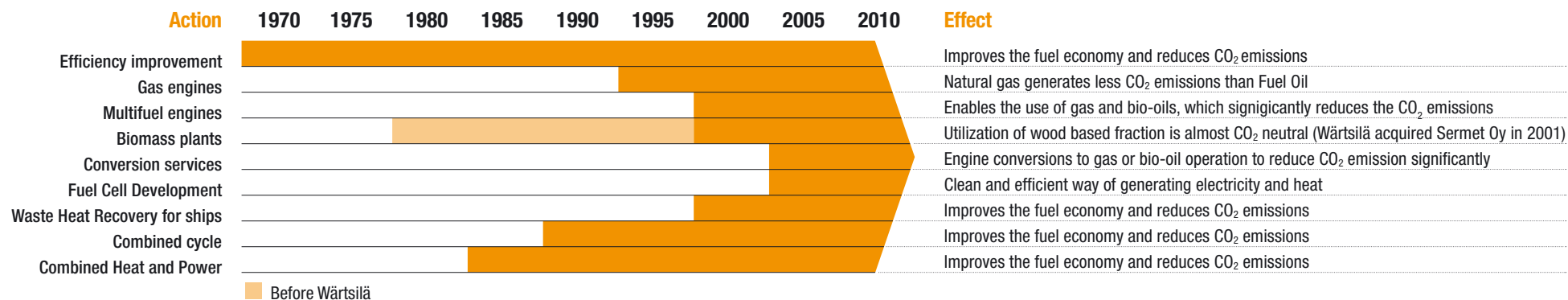
### Prices of fuel oils



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



## Wärtsilä's actions to reduce GHG emissions



set by India and Japan. Wärtsilä's products comply with these requirements.

Wärtsilä actively monitors legislative initiatives and changes in environmental legislation to ensure the company's ability to respond appropriately to future operating conditions. Wärtsilä's R&D takes into account the requirements of the changing operating environment, and develops products that give the company a competitive edge and that enable more stringent environmental regulations.

### Fossil fuels and climate change

The world's energy supply will continue to rely mainly on the use 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. Also, the climate change issue and reduction targets of CO<sub>2</sub> emissions have increased the demand for alternative fuels and technologies.

The use of natural gas is growing due 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.

At the same time, international climate agreements are boosting the use of natural gas significantly. The role of biofuels in the world's energy supply is increasing. Regional and national

targets to increase the proportion of biofuels have boosted the demand for biofuel-based solutions.

Technology can, at its best, help to solve many challenges relating to climate change and the sufficiency of natural resources. Technology that helps us meet increasing demand while, at the same time, resisting harmful change to the climate, is needed for the efficient exploitation of natural resources.

### Wärtsilä, fuels and climate change

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

These engines are used for both marine and energy production solutions. High efficiency is important in the control of climate change, and with low emissions our products meet the various environmental regulations. The efficiency of Wärtsilä diesel and gas engines ranges between 42–50%, depending on the engine type.

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

In addition to power plant applications, DF-engines are also used for the powering of LNG-carriers. With this single solution,

the total CO<sub>2</sub> emissions of all our current customers' applications will be reduced by several millions of tons when compared to traditional gas transportation. At the same time, the availability of gas will be improved and the environmental impacts of gas transportation will be reduced. CO<sub>2</sub> emissions of natural gas are approx. 25% lower than those of oil, and 40% lower than with coal. CO<sub>2</sub> emissions can be reduced even more effectively with renewable energy sources, such as bio-oils.

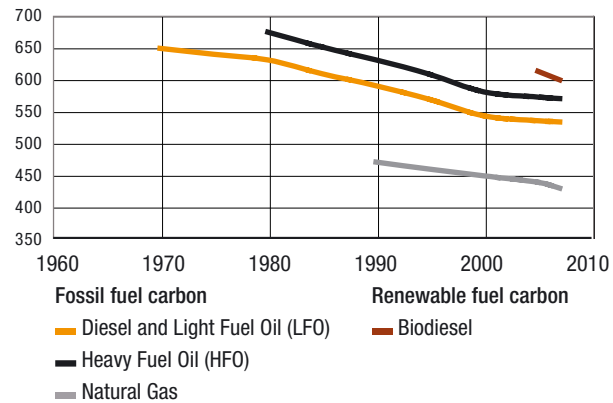
Wärtsilä applies new technologies also to its existing products, which makes it possible to further reduce their environmental impact. With the help of our service products, we can improve the efficiency of older engines and reduce their emissions to the same level as with our newer products. We also convert oil-fuelled engines for gas or bio-fuel use.

In addition to the above mentioned bio-oil engines, Wärtsilä's product portfolio includes power plants that use solid biomass as fuel. With the help of our technology, we can use various wood-based bio-fuels, such as bark, sawdust, wood chips, and even peat as the energy source. These wood-based bio-fuels are by-products of the wood processing industry.

As the frontrunner of the Industry, Wärtsilä has a responsibility to produce sophisticated solutions that enable the environmental load of its customers to be reduced. This is the main role of Wärtsilä in the combat against climate change.

## Development of specific carbon dioxide emissions of Wärtsilä engines

Specific carbon dioxide (CO<sub>2</sub>) emissions



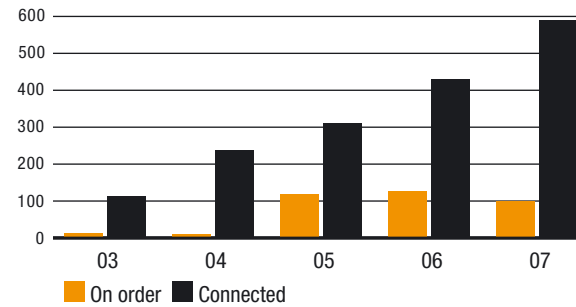
## R&D principles and most important R&D programmes

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 that 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 the conservation of the environment.

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 perform-

## Engines connected to CBM

No. of engines



ance 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 'Wärtsilä and Sustainability' section of this report.

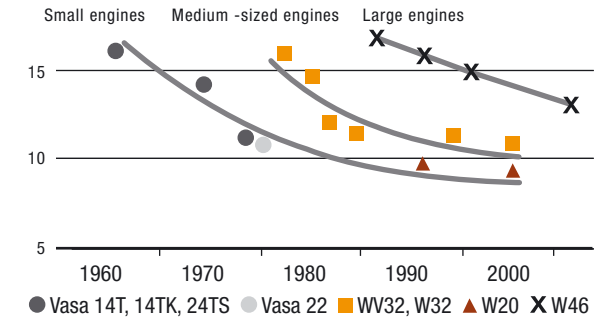
The most important areas of R&D for Wärtsilä in recent years have included the application of common-rail technology to its engines, reducing emissions, improving efficiency, and broadening the range of suitable fuels. Major R&D programmes during 2007 were related to the HERCULES project, the Advanced 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

The HERCULES (High Efficiency Engine R&D on Combustion with Ultra Low Emissions for Ships) project, funded by the EU Commission, was closed in September 2007. A primary goal of this project, the origin of which was a common initiative from the two leading engine designers and manufacturers, Wärtsilä

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

Power-to-weight ratio kg/kW



and MAN Diesel, was to develop new technologies to reduce gaseous and particulate emissions from marine engines. A second objective was to increase engine efficiency and reliability, which in turn will reduce specific fuel consumption, carbon dioxide emissions, and lifecycle costs. Successive objectives for improvements to be available onboard ships have been set for 2010 and 2020.

The R&D within HERCULES has been most successful. Methods taking us even considerably beyond the goals of the project have been identified and validated. New technologies enabling a reduction in emissions, for example a 50% NO<sub>x</sub> reduction without need of external abatement methods while maintaining or even improving efficiency, have been developed. In long-term projects, such as particulate removal technologies, new insights could be gained.

Platforms for advanced engine R&D, including further exploitation of results from the HERCULES project, have been developed. Both the Extreme Value Engine (EVE) and the testing environment in the Internal Combustion Engine Technology laboratory at the Helsinki University of Technology, have been entirely renewed. A new test facility based on a high-temperature spray combustion chamber for combustion research on large-bore diesel engines, has been built in close co-operation with the Federal Technical University in Zürich. Further research



activities in related areas, such as intelligent turbocharging, advanced technologies for NO<sub>x</sub> reduction, and fundamental research of particulate formation, yielded new results that will lead to the application of new technologies on future Wärtsilä engines.

A follow-up project has been defined and a proposal has been submitted to the EU for acceptance within the 7th framework programme. Continuation of research under this framework would ensure the exploitation of the created partnerships and the first HERCULES project, and would penetrate into new areas.

### **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 know-how available at a number of Finnish research institutions in order to create concepts for future fuel injection systems, valve actuating systems, and turbocharging systems.

Validation of a prototype diesel generating set commenced at the Vaasa engine laboratory in May 2007. The generating set, which has been subject to extensive performance and endurance tests, had accumulated more than 1,000 hrs by the end of 2007.

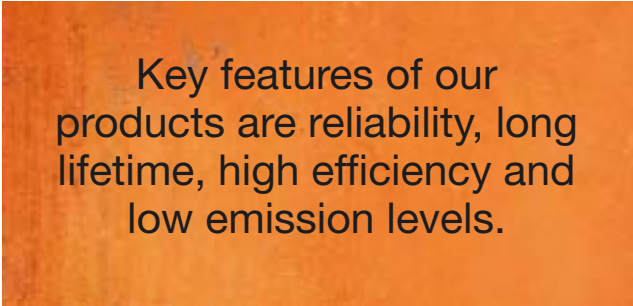
The validation of the GENSET-concept will continue in 2008. The intention is not only to expose the generating set to further endurance tests, but also to test new technologies having the potential to support engine performance improvement and emission reductions. The new technologies, which include solutions developed both by domestic research institutions and external industrial partners, will be implemented and tested in a systematic step-by-step approach, allowing anyone evaluating the outcome of the tests to clearly identify the influence of each and every added technical feature.

### **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 has been developing fuel cell technology for decentralized power generation and marine applica-

tions since the year 2000. The company's fuel cell development team is focusing on developing, designing and manufacturing a solid oxide fuel cell (SOFC) system. In this work Wärtsilä is taking advantage of its extensive know-how in combined heat and power generation, and the company's in-depth knowledge of its marine customers' needs.

Part of the R&D programme covers the development of the WFC20 alpha prototype, a 20 kW SOFC unit, which was successfully started in October 2007. Wärtsilä plans to introduce its first demonstration units in the 20 kW range during 2008. Within the next year or two, the company is planning to introduce pre-commercial units in the 20 to 50 kW range. Commercialization of fuel cell units for onshore and offshore power plant applications will start at the beginning of the next decade. In 2008 Wärtsilä is participating in three major EU-funded development projects in which three fuel cell units developed by Wärtsilä will be built and tested.



Key features of our products are reliability, long lifetime, high efficiency and low emission levels.

### **Reducing sulphur oxide emissions from marine engines**

Wärtsilä's scrubber project has proceeded according to plan. The technology mapping and selection was based on the vast experience of delivered SO<sub>x</sub>-scrubbers for stationary plants, and our expertise in marine applications. Wärtsilä concluded that fresh water ("closed loop") scrubbing with an added chemical (typically caustic soda) was best suited for the marine application.

In order to maintain high efficiency, a seawater scrubber needs a high flow of seawater with an adequate level of alkalinity. For this reason, it will be impossible to retain water at berth

as certain ports require. In the fresh water scrubber, a caustic soda (NaOH) solution is used to neutralize sulphur compound.

The cleaning efficiency of the fresh water scrubber is typically higher than 90% at all times. A figure as high as 97% can be specified for generator engines to reach an equivalent of 0.1% fuel sulphur, as will be required in, for example, EU and Californian ports. Consequently, engines will always be able to run on conventional HFO. With more stringent regulations looming in the future, fresh water SO<sub>x</sub>-scrubbing is being seen as the best holistic way to reduce sulphur while, at the same time, minimising operational costs by using HFO.

Feasibility studies per ship type have been completed. A demonstration unit has been installed on a tanker since October 2007. Results of this application and actual performances will be published during 2008.

### **Collaboration with 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. Wärtsilä has gained promising results in working closely with various stakeholders towards improving the overall efficiency and environmental performance of its solutions.

Wärtsilä collaborates with Mitsubishi Heavy Industries in the fields of product development, manufacturing and distribution. Wärtsilä is also developing two new engine types in co-operation with Hyundai Heavy Industries. The first production engines will be started in the first half of 2008. Wärtsilä also collaborates with Becker Marine Systems with the aim of furthering the 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. Based on results of lifecycle assessments, the majority of the environmental impacts of a diesel engine arise during the operation of the engine; from exhaust emissions during engine operation, and from the fuel supply chain relating to its operation. Wärtsilä manages the lifecycle of its products through product design, careful choice of suppliers, production methods, optimizing



The International Tech Park in Bangalore, India is powered and chilled by an efficient Wärtsilä combined cooling, heating and power plant.

transportation, maintenance and repair during the products' operational lifetime, and by training and advising customers.

### **Wärtsilä's environmental targets 2006–2010**

#### **Targets for 2006**

Wärtsilä's R&D targets in 2006 were related to the full release of 710 ppm NO<sub>x</sub> engine concepts for power plant engines and, in the case of marine engines, compliance with upcoming US and EU regulations. The emission levels for power plant engines have been reached and Wärtsilä 20 and Wärtsilä 46F have been fully released. Wärtsilä 32 has limited release status, the full release will be realized within the next couple of years, based on the market needs. Wärtsilä 26 marine engine was EPA certified 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<sub>x</sub> 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.

## Summary of environmental aspects of Wärtsilä's products and solutions

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customer's options
<b>Emissions into the air</b>	<b>Pollution of air</b>		
Engines and power plants	Climate warming: Carbon dioxide (CO <sub>2</sub> )	Increasing engine and plant efficiency, multifuel engines	<ul style="list-style-type: none"> <li>• Using a different fuel</li> <li>• Using a fuel with a lower sulphur content</li> <li>• Investment in secondary emission reduction technologies</li> <li>• Planned or optimized maintenance and correct operation</li> </ul>
	Acidification: Sulphur oxides (SO <sub>x</sub> )	Increasing engine efficiency, several emission reduction technologies, multifuel engines	
	Acidification, eutrophication, lower atmosphere ozone formation: Nitrogen oxides (NO <sub>x</sub> )	Low NO <sub>x</sub> combustion, air humidification technologies, SCR, multifuel engines	
	Human health impacts, visual impact: Particles, smoke (PM)	Optimizing the combustion process, common-rail fuel injection, electrical filters	
	Reduces oxygen uptake in the lungs: Carbon monoxide (CO)	Optimizing injection, compression, and the shape of the combustion space, oxidation catalysts (gas engines)	
	Climate warming (CH <sub>4</sub> ), ozone formation in the lower atmosphere, some carcinogenic compounds: Hydrocarbon (THC, VOC)	Oxidation catalysts in gas engines for VOC emissions, optimizing the combustion process	
<b>Consumption of raw materials</b>	<b>Depletion of natural resources</b>		
Engines	Cast iron, alloy and structural steel, aluminum alloys. Main chemical elements of engines: Fe 90.8%, Al 2.7%, C 2.2%	Long product life, using recycled materials, material efficiency, automated filters, modernizing engines, overhauling and recycling components	<ul style="list-style-type: none"> <li>• Planned or optimized maintenance and correct operation</li> <li>• Personnel training</li> <li>• Overhauling</li> <li>• Recycling components</li> <li>• Recycling catalysts</li> <li>• Optimizing process parameters</li> </ul>
Propulsion systems and seals	Metals, bronze. Main chemical elements of propulsion systems: Cu 80.1%, Al 9.3%, Ni 4.9%	Long product life, using recycled materials, material efficiency	
Power plants	Several different materials such as steel, concrete, seals, water	Prefabricated modules, material efficiency	
Secondary cleaning technologies	Alloy and structural steel, different types of catalyst materials, reagents (e.g. ammonia, urea), water	Developing primary technologies; developing secondary technologies in collaboration with equipment manufacturers	
<b>Consumption of fuel &amp; lubricating oils</b>	<b>Depletion of natural resources</b>		
Engines and power plants	Liquid oil-based fuels (e.g. LFO, HFO, Orimulsion®), gas fuels (e.g. LNG, NG, CNG) and biofuels (e.g. rapeseed and palm oil, biomass), lubricating oil	Improving energy efficiency, reducing the consumption of lubricating oil, multifuel engines, utilizing biofuels and alternative fuels in power production	<ul style="list-style-type: none"> <li>• Planned and optimized maintenance and correct operation</li> <li>• Personnel training</li> <li>• Using environmentally benign fuels</li> <li>• Using environmentally favorable lubricating oils</li> <li>• Using environmentally favorable seals</li> </ul>
Propulsion systems	Lubricating oil	Improving the total operating efficiency of ships, increasing the service life and reducing the consumption of lubricating oil, preventing oil leakages	
<b>Solid and liquid waste</b>	<b>Increased waste at landfill sites</b>		
Engines	Lubricating oil used, filters and components, waste oil	Using recyclable materials and optimizing the use of materials, automated filters, long service intervals, overhauling components, reducing the consumption of fuel	<ul style="list-style-type: none"> <li>• Planned and optimized maintenance and correct operation</li> <li>• Personnel training</li> <li>• Recycling and proper waste disposal</li> <li>• Evaluation of the potential uses of end products</li> <li>• Optimizing process parameters</li> </ul>
Power plants	Construction waste, ash, waste water, waste oil, office waste	Prefabricated, ready-to-install modules	
Secondary cleaning systems	End products and catalysts of flue gas decontamination	Evaluating the potential uses of end products, developing dry primary technologies	
<b>Noise and vibration</b>	<b>Discomfort</b>		
Engines and power plants	Structure-borne noise, flue gas noise, airborne noise	Efficient noise reduction solutions and damping systems, e.g. re-positioning wall structures and noise-generating sources	<ul style="list-style-type: none"> <li>• Planned maintenance and correct operation of power plant</li> </ul>
<b>Heat emissions</b>	<b>Warming of the atmosphere</b>		
Engines and power plants	Waste heat from exhaust gases	Heat recovery systems	<ul style="list-style-type: none"> <li>• Optimizing process parameters</li> </ul>



## Environmental performance indicators

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.

### Materials

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminum alloys and bronze. Recycled material content of these metals vary depending on material and supplier in question. E.g. recycled material, such as end-of-life coins and bronze propellers, is used in the casting of new propellers.

### Energy

#### Total energy consumption

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

#### Electricity

Wärtsilä uses electricity in its manufacturing operations – for example, in machining components – and in service workshops and offices. Both the electrical and the heat energy generated during engine test runs can be 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.

#### 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 processing, 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 has succeeded in lowering noise levels considerably. However, noise abatement is a continuous need and requires regular monitoring.

Air emissions are mainly caused by test runs and the painting of completed engines or other Wärtsilä products. Test run emissions consist of nitrogen oxides, 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 of legislation

The operations of Wärtsilä's manufacturing companies require a valid environmental permit. Wärtsilä companies have the required environmental permits, the terms of which are generally met. Incidents of non-compliance are described 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 2007:

- 2 fires
- 2 fuel leaks
- 1 lubrication oil leak
- 1 incorrect waste classification
- 2 excesses of waste water concentration levels

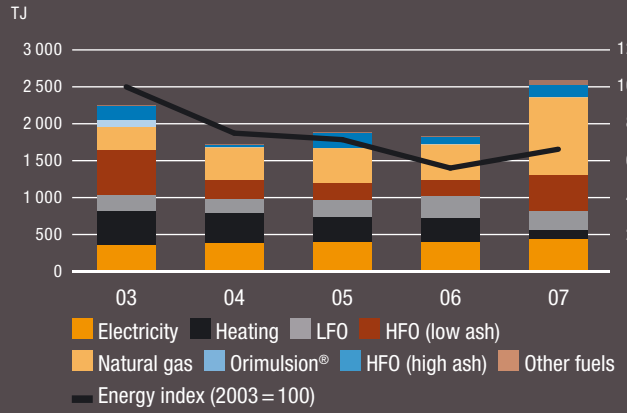
All the above disturbances were investigated and appropriate corrective action was taken in each case.

The complaints made by occupants of neighbouring sites were related to noise, odours and smoke. All complaints were investigated and appropriate corrective action was taken whenever necessary.

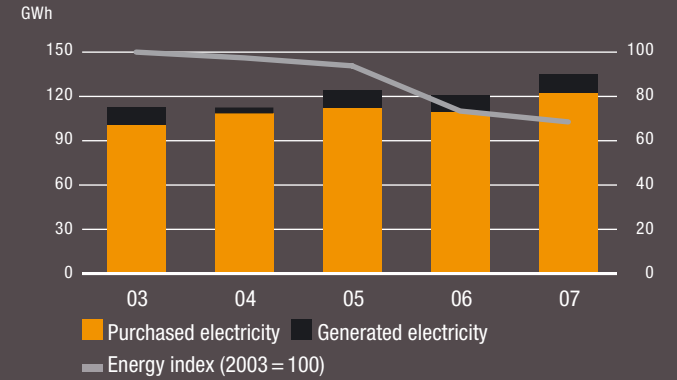
#### Cases of non-compliance

Wärtsilä Guatemala S.A. was not able to produce the technical study of liquid waste disposal as required by newly enforced legislation. The study is expected to be ready during the first quarter of 2008. Wärtsilä Iberica S.A. was in non-compliance

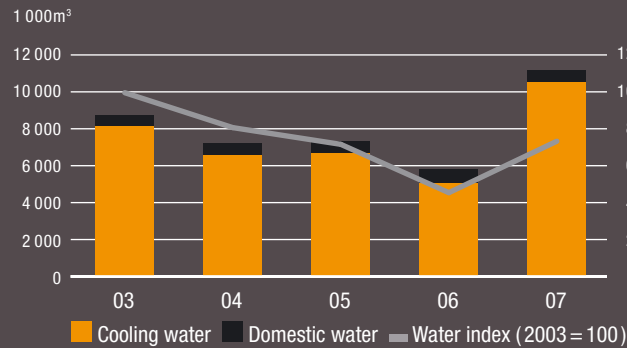
### Annual energy consumption



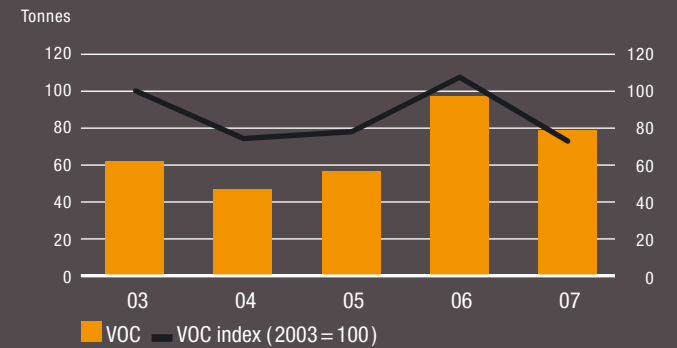
### Annual electricity consumption



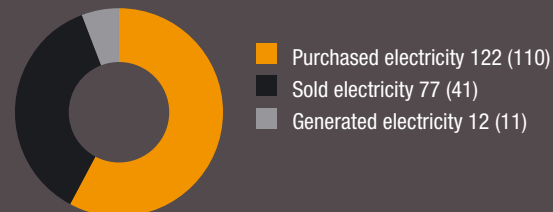
### Annual water consumption



### Annual VOC emissions



### Electricity balance 2007 in GWh





■ Recycling of copper cable in propeller manufacturing in Drunen, Holland.

due to the absence of valid technical certificates of certain technical equipment, such as the pressure boiler and fuel tank. In Wärtsilä India Ltd. non-compliance cases were related to the inadequate height of certain factory chimneys, a missing dust control system, and excess water consumption. Corrective actions will be taken in both companies.

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

There were no cases of non-compliance at Wärtsilä operating locations during the previous period.

#### 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 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

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

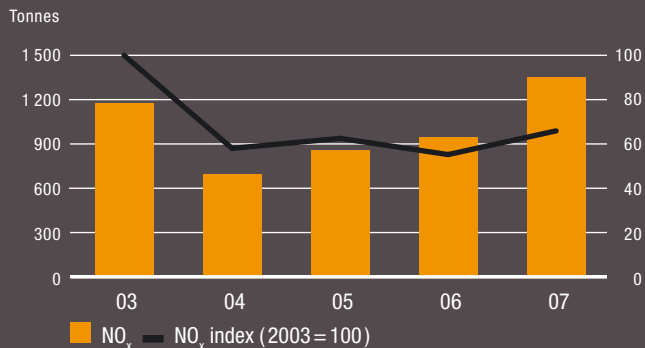
The real estate that Wärtsilä owns or leases is mainly located in urban areas. The company is not aware of any properties that are situated in areas where biodiversity could be endangered. Environmental risks and liabilities are identified and reviewed as a part of overall risk management. In Wärtsilä's 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

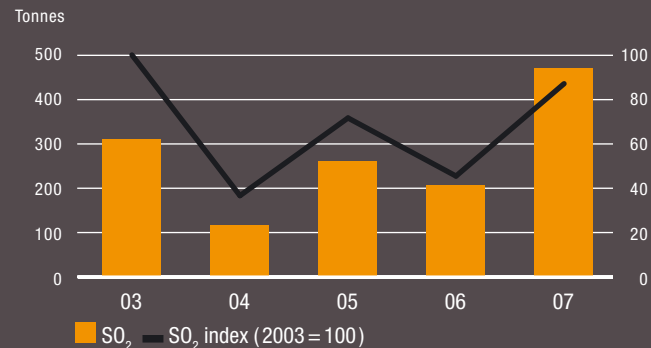
MEUR	2007	2006	2005	2004	2003
Environmental capital expenditures	2.5	1.8	2.5	2.8	2.1
Environmental operating expenditures	4.1	3.5	3.0	2.8	4.9



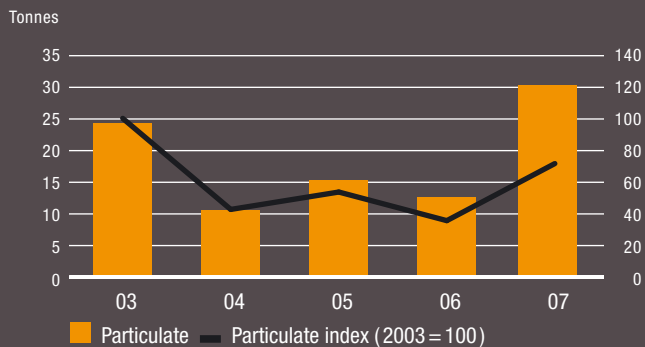
### Annual NO<sub>x</sub> emissions



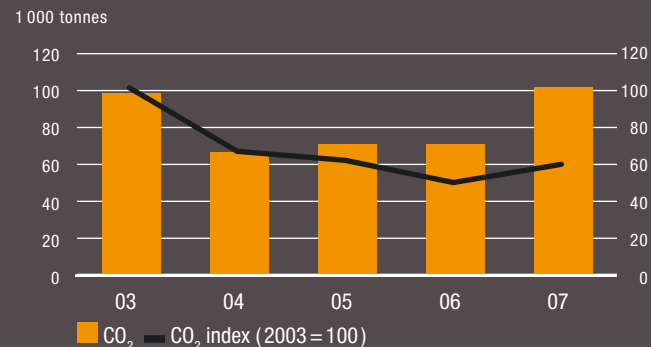
### Annual SO<sub>2</sub> emissions



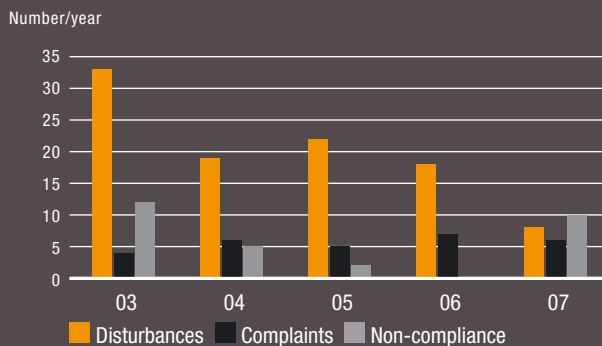
### Annual particulate emissions



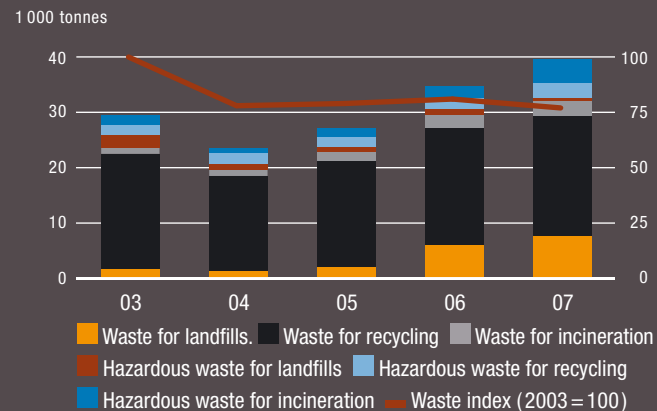
### Annual CO<sub>2</sub> emissions



### 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, with which each Wärtsilä employee is required to comply.

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

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.

## Personnel

Recruitment activities were intense throughout 2007. The number of personnel increased by 1,990 new employees. This total increase came mainly as a result of organic growth and includes only a small number of personnel coming via acquisitions. In addition to direct employment, Wärtsilä also employed indirectly an external workforce totalling 2,152 man-years in subcontracting in its factories and units. The largest increase in personnel took place in the Services business. Geographi-

cally, the number of employees grew most of all in Europe and the Asia-Pacific countries. The increase in the units in Finland during the year was 385 employees.

In most European countries 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 2007

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 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.

## 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 2007, a Code of Conduct leaflet was published. The subsidiaries began reporting compliance with the Code with regard to sustainability data reporting.
Introduction of occupational health and safety (OHS) systems in all subsidiaries	Continuous	At the end of 2007, 31 companies had an OHS system in operation, of which 23 were certified according to OHSAS 18001.



## CASE TRIESTE

# Factory enlargement has positive impact on Trieste area

**Location:** Trieste

**Company:** Wärtsilä Italia S.p.A.

**Investment:** 18 MEUR

**New employment:** 154

**Investment type:** Factory development & enlargement project

- New facilities for heavy pre-assembly lines for Wärtsilä 46 and Wärtsilä 50DF engine production
- New facilities for engine main assembly
- New logistic areas, designed for new logistic concept
- New facilities for test and engine finishing

The investment has raised the capacity of Delivery Centre Trieste to a level that meets future market requirements and flexibility needs and support the growth targets.

The new engine production facilities have developed a modern manufacturing concept to deliver higher quality, to raise efficiency and to increase capacity for engine assembly and testing in Trieste, Italy.

The project has involved the areas of machining and pre-assembly of modules, the creation of modern pre-assembly lines provided with appropriate assembly and lifting equipment, conceived with criteria of flexibility to adapt readily to the various requirements of the market and therefore to different mix of the engines, but maintaining the high efficiency needed for facing the future demand.

This investment has had positive impact on local community and due to increased employment the impacts are long-term. Thanks to this current investment, Wärtsilä's supply chain has involved many companies in the region.

"The new facilities allow us to increase delivery volumes and obtain considerably higher quality and delivery accuracy. This in turn will be reflexed in a more competitive cost structure."

–Mr Sergio Razeto, President, Wärtsilä Italia S.p.A.

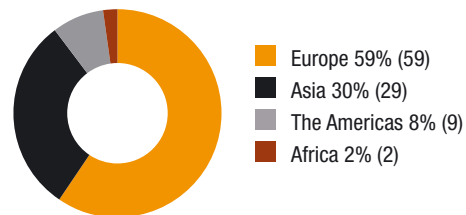


### Strong focus on training and education

During 2007, Wärtsilä gave particular emphasis to effective induction programmes for new employees and newly appointed managers. Learning at work, mentoring, and job assignments designed to enable the transfer of competence and skills from experienced to younger employees, are extensions to the traditional professional and general training programmes produced by Wärtsilä's global training network. Wärtsilä encourages its employees to develop a varied working career through internal and international job rotation, and provides opportunities for them to do this. The employees' own short- and long-term career aspirations are discussed in annual development discussions. The company reviews regularly its successor plans for key positions in order to ensure the continued availability of the right resources for these key positions in the future. Since March 2007, there have been two ongoing 12 to 18 months graduate programs, one in Finance and the other on Information Management, for future Wärtsilä business professionals.

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 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, which is altogether 52,312, indicates the broad scope of this function. Most of the training events are tailored to the specific needs of departments.

### Personnel by market area



### Common processes and tools for people management

During 2007, Wärtsilä further developed its core people management processes, and increased the efficiency of the tools needed by managers and employees to deploy the processes. The annual development discussion is the core vehicle for 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.

Each Wärtsilä employee needs to know and understand Wärtsilä's business strategy and its goals, and more importantly, to know the targets set for their own units and the main target areas related to their own work. Wärtsilä's aim is to engage in development discussions with all its employees. An electronic tool for documenting development discussions was introduced during 2006 and the new, more user friendly, tool was launched in December 2007.

### Significant improvement in job satisfaction

Wärtsilä conducted a Group-wide employee satisfaction survey in March 2007. Employee satisfaction has improved in all the areas measured by the survey, and the response rate (64.8%) was also higher than for the 2006 survey. The results indicate greater satisfaction in all dimensions, than in the previous survey. The results are notably strong in the Competence and Development dimension, which indicates that Wärtsilä employees feel that they are competent to carry out their duties, and also that they feel that they have the opportunities to develop their skills and career within Wärtsilä.

Since the first survey carried out in 2004, positive changes can be seen. Notably, there have been very large improvements in the areas of fairness, communications, and in knowing and understanding strategy. This can be interpreted as indicating a higher level of commitment to the company. Areas where further development activities are needed include working environments, clarifying roles and tasks, and daily co-operation and communications. The next employee satisfaction survey will be conducted in September 2008.

### Challenges for personnel management and priorities in 2008

Excellence in resourcing and recruiting continues to be the strong focus in 2008. Growth continues, and the increase in

personnel will be even higher than during 2007. Wärtsilä wants to be seen as a potential and attractive employer, both for newly graduated and experienced professionals, while at the same time offering opportunities for personal development and career development to those already working in the company.

Leadership competence development is one of the key development targets in all areas. Additionally, high priority is given to well implemented and deployed performance management processes, including quality in target setting, performance coaching, regular performance and achievement reviews, and the rewarding of good and excellent performance. During 2007 Wärtsilä renewed its organisational structures to be better aligned with the business strategies. The target for 2008 is to develop and gain the desired organisational capabilities made possible by the re-structuring.

### Personnel practices

#### Employee benefits and remuneration

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

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

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

### Minimum notice period

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

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

### Competence Management process

Wärtsilä's Competence Management process is an effective and structured way to carry out long-term perspective competence development within our business functions. In order to know where to focus our competence development actions, we need to recognize the required competencies that are critical to the success of our company today and in the future. Through the same process, we are able to identify both the short- and long-term individual competence development needs. Competence assessment of our personnel and comparison with competence targets allows us to analyse competence gaps.

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

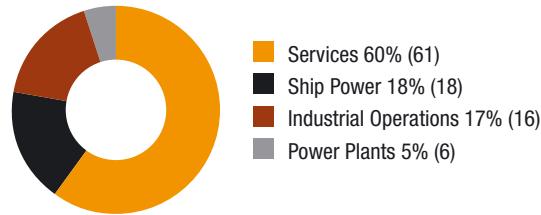
The training responsibilities divided within Wärtsilä are:

**Corporate Training & Development** defines and communicates training strategy for Wärtsilä, and designs and delivers the corporate management & leadership programmes. The Corporate Training team also supports the local HR training departments and maintains a network of competent trainers.

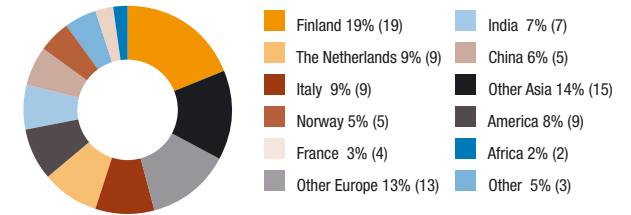
**Businesses** are accountable for defining their business specific strategic competencies, and for developing appropriate training programmes.

**Local Training & Development:** The local HR departments support the delivery of learning solution programmes.

### Personnel by businesses



### Personnel by country



## Personnel in figures 2007

Number of employees at 31 Dec. 2007		16 336
Number of nationalities		102
Change in number of employees (net employment creation)		+ 1 779
Average age of employees	years	38.2
Male/female ratio	%	87/13
Employee turnover (resigned)	%	8.5
Total payroll costs	MEUR	592
Aggregate coverage of different bonus schemes	%	60
Development discussions held annually	%	70

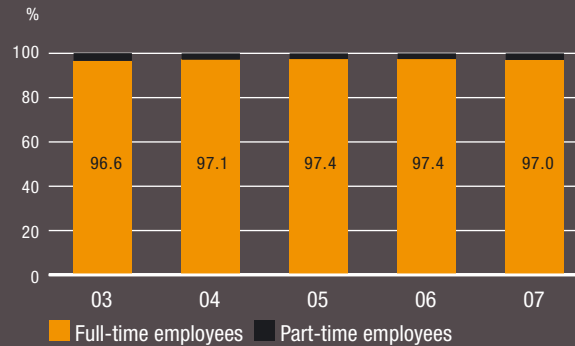
## Number of employees per business

	No. of employees	Change
Services	9 563	+1 024
Ship Power	2 940	+471
Power Plants	826	-12
Industrial Operations	2 642	+455
Other	365	+52

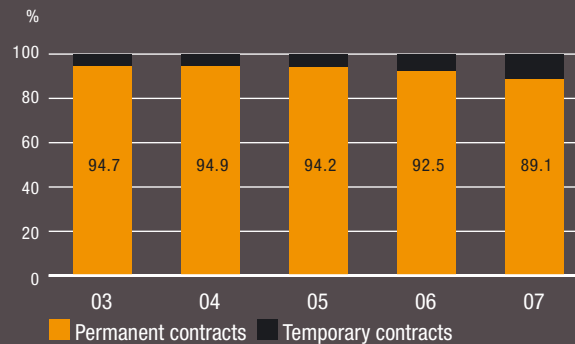
## Training days

Days/employee	2007	2006	2005	2004
Managers and superiors	5.3	3.3	3.0	2.5
Other white collar employees	2.9	3.9	3.3	2.9
Blue-collar employees	2.8	2.4	2.3	3.3

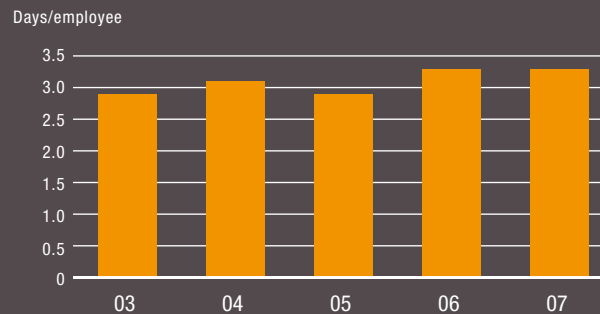
## Full-time/part-time employees



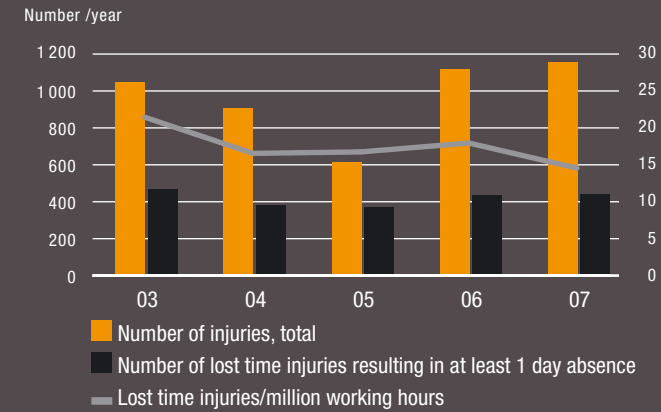
## Permanent/temporary employees



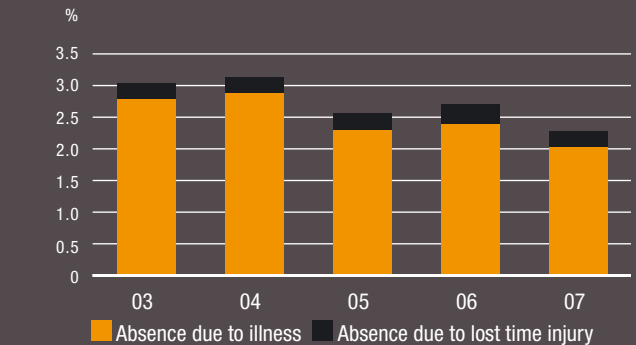
## Training days



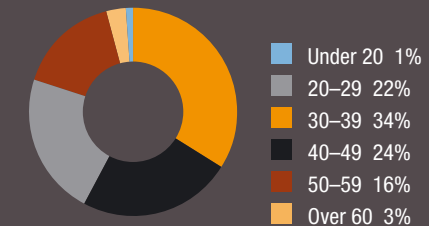
## Injuries



## Absence rate



## Age structure





### The contents of development discussions

1. Clear job description
2. Target setting and result review
3. Feedback/assessment
4. Individual development plan

atives. Development discussions with individuals or teams are done at least once a year. The target for annual development discussion compliance is 100% by the end of 2009.

### 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 process (CIP)

### Performance

#### Management process

The Performance Management process supports Wärtsilä in reaching its business targets by translating business strategies to people management actions and individual objectives.



Training at Wärtsilä Land & Sea Academy.  
The demand for training services is growing steadily.

or by submitting private initiatives. CIP-proposals are discussed jointly and need a common decision to be put into effect. Private initiatives are evaluated by experts within the company and, if found to be feasible, are put into effect.

Wärtsilä encourages its employees to be innovative by granting an annual Technology and Innovation Award, either to an individual or to a team, for the best technical innovation of the year. The award criteria are that the invention must be innovative, environmentally sound, representative of leading technology, improve a product or process, and offer potential for cost savings. In 2007 the award was granted to three research and development teams, which were behind the successful application of two-stage turbocharging to medium-speed engines.

### Occupational health and safety

Wärtsilä's occupational health and safety principles are defined in the company's QHSE policy and directive on occupational health and safety (OHS). Wärtsilä's subsidiaries must have a management system in use that conforms to the QHSE policy and OHS 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 QHSE policy is to prevent and manage health and safety risks to personnel and stakeholders. In addition to the management system, Wärtsilä companies

apply OHS programmes 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. Three serious accidents occurred during the reporting period in which two employees of Wärtsilä and one employee of a subcontractor lost their lives. The accidents occurred when they were at the customer's worksite. All three of these regrettable accidents were thoroughly investigated, and steps have been taken to prevent similar accidents from occurring in the future.

### Human rights

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

Wärtsilä's employees represent 102 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. Wärtsilä Brasil Ltd had two cases in which the travel time of an employee exceeded the national legal limit. These infringements resulted in fines amounting to EUR 1,300.

Since Wärtsilä expects its partners and suppliers to act in compliance with its Code of Conduct, similar measures will also

apply to them. The company sets common requirements for its suppliers and regularly monitors conformance with these requirements through numerous performance indicators and audits. All the company's main suppliers are required to comply with Wärtsilä's requirements in order to gain approved supplier status.

Wärtsilä assesses all companies in conjunction with mergers and acquisitions. The integral part of these due diligence assessments is compliance with relevant legislation.



### Security practices

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

### Impact on communities

The guiding principle of Wärtsilä's Code of Conduct is to promote openness and good interaction with its stakeholders locally. This applies as much to the families of personnel, our neighbours, educational institutions and the media, as to local authorities and officials. The methods used towards this end include Open Door days, press briefings, and different modes of communication for different target groups. Measures to evaluate the impacts on local communities in conjunction with operational changes of Wärtsilä subsidiaries are determined case by case. Wärtsilä's activities for charitable purposes are described in the Economic Performance section of this report.

### Suppliers

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

Wärtsilä assesses and manages its suppliers through its Supplier Management System. Wärtsilä regularly conducts supplier evaluations. These are divided into three categories: 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. Supplier performance seminars are held on a regular basis to improve quality and the delivery reliability level of the suppliers. In 2007 there were 12 performance seminars, in which 60 suppliers participated.

In 2007 the Suppliers' Day event was held in Vaasa. The event aims to create long-term relations between Wärtsilä and its suppliers, and the main theme of this latest meeting was a programme called "Innovations". The event was attended by close to 180 suppliers from around the world. "Supplier of the Year" awards were presented during the seminar to Kongsberg Maritime AS, Swep International Ab, Heco International AS, Kobe Steel Ltd., Hug Engineering AG, Pentagon Tool Room Industries, Nittan Valve Co. and Componenta Pistons Oy.

### Preventing corruption and bribery

Wärtsilä's Code of Conduct and Broker Directives expressly prohibit the company and its employees from accepting or offering any kind of benefit considered to be a bribe, and from actions that could give rise to a conflict of interest or breach of loyalty. Because of this, business gifts of nominal value only may be given or accepted. The instructions make it compulsory to comply with local anti-bribery provisions and internationally recognized anti-corruption and anti-bribery principles, and to report any cases of bribery. The company renders

extensive training for its personnel, particularly the sales organization, on anti-corruption principles and the relevant instructions.

In the case of suspected bribery referred to in the previous Sustainability Report, the Supreme Court in Finland ruled that the Wärtsilä employee in question was innocent of all charges brought against him. As a result the Supreme Court upheld the ruling of the Vaasa district court, as well as that of the Vaasa appeal 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. During the reporting period, no instances of non-compliance related to social performance were identified.

### Customer satisfaction

Wärtsilä continuously develops and deepens relations with its customers. Wärtsilä supports its customers in the design, start-up and operation of the equipment and systems it delivers, as the



requirements of each customer dictate. Dialogue with customers is vital 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 2007 the Power Plants business held 42 customer events and seminars with a total of more than 800 participants. Power Plants also participated in 19 international conferences. A total of 50 customer seminars were organized by the Ship Power business. Several hundred customer representatives attended events organized by the service network companies and technology units. Ship Power attended 20 international and national maritime conferences and 35 exhibitions.

Wärtsilä uses a Customer Relationship On-Line (CROL) system for measuring the company's sales, delivery and service performance in individual projects. The system requires Wärtsilä to make a self-assessment with the same questions as given

to customers, thereby enabling a comparison with feedback from customers. This highlights actions necessary to rectify any issues during the customer relationship lifecycle. The management and the responsible persons within the business units regularly monitor customer satisfaction levels, 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.

### The average results for the customer satisfaction survey

	2007	2006	2005	2004
Ship Power	7.5	7.4	7.2	7.5
Services	7.7	7.6	7.7	7.8
Power Plants	8.1	7.9	8.1	8.0
Sample	1 575	1 477	1 167	



# Report scope

Wärtsilä's Sustainability Reporting 2007 is prepared according to the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines (G3).

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

## Coverage of the report

This report covers Wärtsilä's businesses. At the company level the report includes the parent company and its subsidiaries as well as its manufacturing, service and sales units. The report

excludes Wärtsilä's associated companies, joint ventures and supply chain companies.

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

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

- Wärtsilä Portugal Lda, Wärtsilä BLRT Estonia Oü, Wärtsilä BLRT Services Klaipeda UAB

## Coverage of operational data

Operational data	% of Wärtsilä companies				% of personnel				% of product manufacturing			
	2007	06	05	03-04	2007	06	05	03-04	2007	06	05	03-04
Economic	100	100	100	100	100	100	100	100	100	100	100	100
Environmental	90	90	90	79	96	91	95	92	100	96	98	100
Social	90	90	90	79	96	91	95	92	100	96	98	100

- Whessoe S.A., Senitec AB, Whessoe Total Automation Ltd, Wärtsilä Lanka
  - Wärtsilä-CME Zhenjiang Propeller Company Ltd
- These companies will be included in Wärtsilä's sustainable development reporting in the forthcoming years. Wärtsilä's Sustainability Reporting is an integrated part of its Annual Reporting and therefore Wärtsilä publishes its Sustainability data annually.

## Significant changes in Group structure

The structural changes that apply to the Power Businesses are described in the Business Review. They relate mainly to development of the Ship Power and Services businesses.

# Reporting profile

## Data collection

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

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

Each company has a nominated individual responsible for collection and consolidation of the data, and for its quality and reliability. The management of each company approves the data

before it is consolidated at Group level. The companies report their sustainability data using Wärtsilä's CSM reporting system. The reported data is checked at both local and Group levels before its consolidation.

The content of this Sustainability Report was reviewed and approved by Wärtsilä's Board of Management on 11.2.2008.

KPMG Oy Ab has independently assessed the completeness, accuracy and consistency of the data in the report. Site audits were carried out in Zwolle, Netherlands, and in Wuxi and Shanghai, China.

This report is a third party checked Application level of "A+" according to the GRI G3 -guidelines.

## Additional sources of information

Wärtsilä has previously published the following reports:

- Wärtsilä Environmental Report 2000
- Wärtsilä Sustainability Report 2002

- Wärtsilä Sustainability Report 2004
- Wärtsilä Sustainability Report 2005
- Wärtsilä Annual Report 2006.

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

## Sustainability Report Project Team

- Göran Hellén** Head of Emission Control and Combustion, Industrial Operations
- Ari Suominen** General Manager, Environment, Power Plants
- Riku-Pekka Hägg** Director, Operational Development, Ship Power
- Arnauld Filancia** Marketing Communications Manager, Services
- Tuija Lindroos** Publications Manager
- Joséphine Mickwitz** Director, Investor Relations
- Marko Vainikka** General Manager, Sustainability  
(contact person: [marko.vainikka@wartsila.com](mailto:marko.vainikka@wartsila.com))

# Independent assurance report

At the request of Wärtsilä Oyj Abp, we have reviewed the sustainability reporting of Wärtsilä Oyj Abp consisting of the economic, social and environmental data and statements from the year 2007. We have reviewed the systems and methodologies behind the data. The data according to the GRI content index are presented in the Annual Report of Wärtsilä Oyj Abp for the year 2007, and the part concerning the product performance is presented in the section of sustainability issues on Wärtsilä Oyj Abp's home page on the internet. The presented data are the responsibility of and has been approved by the Board of Management of Wärtsilä Oyj Abp. The inherent limitations of completeness, consistency and accuracy of the data and statements are set out in the Annual Report of Wärtsilä Oyj Abp.

We have undertaken the engagement work in accordance with the assurance standard (ISAE 3000) "Assurance engagements other than audits or review of historical financial information" -principles. We have planned and carried out our work in

order to be able to obtain reasonable assurance on the reliability of the data to be assured.

Our review has consisted of the following procedures:

- a discussion with management responsible for compiling the report;
- an interview with the two members of the Board of Management;
- an examination of relevant background information for sustainability data presented;
- a more detailed review of the systems for gathering and processing data at operating level at two sites in China and two sites in the Netherlands, selected by us.

The Wärtsilä Oyj Abp sustainability reporting for the year 2007 has been prepared in accordance with the 2006 GRI G3 Guidelines. Based on the procedures undertaken, nothing has come to our attention that causes us to believe that the sustainability information, data and statements presented according to

the GRI content index for the year 2007 would not have been prepared according to the internal reporting guidelines of Wärtsilä Oyj Abp, and would not describe correctly the present state and progress of the sustainability issues of Wärtsilä Oyj Abp for the year 2007.

Helsinki, 14 February 2008

KPMG OY AB

Pekka Pajamo  
Authorized Public Accountant

Olli Miettinen  
Advisor, Sustainability Services

# GRI content index

GRI content	Page	Remarks
<b>Profile</b>		
1. Strategy and Analysis		
1.1 CEO's statement	6 ●	
1.2 Key impacts, risks and opportunities	42–47, 31–32 ●	
<b>2. Organizational Profile</b>		
2.1 Name of the organization	2–5 ●	
2.2 Primary brands, products and services	2–5 ●	
2.3 Operational structure	2–5 ●	
2.4 Location of organization's headquarters	2–5 ●	Helsinki, Finland
2.5 Number of countries and location of operations	2, cover ●	
2.6 Nature of ownership and legal form	2–5 ●	
2.7 Markets served	2–5 ●	
2.8 Scale of the reporting organization	2–5 ●	
2.9 Significant changes	10–11, 81–82 ●	
2.10 Awards received in the reporting period	●	Not applicable
<b>3. Report Parameters</b>		
3.1 Reporting period	72 ●	
3.2 Date of most recent report	72 ●	
3.3 Reporting cycle	72 ●	
3.4 Contact point for questions regarding report	72 ●	
3.5 Process for defining report content	72 ●	
3.6 Boundary of the report	72 ●	
3.7 Limitations on the report's scope or boundary	72 ●	
3.8 Basis for reporting subsidiaries and joint ventures	72 ●	
3.9 Data measurement techniques and bases of calculations	72 ●	
3.10 Explanation of re-statements	72 ●	
3.11 Significant changes from previous reporting periods	72 ●	
3.13 Assurance policy and practice	72 ●	
<b>4. Governance, Commitments and Engagement</b>		
4.1 Governance structure	33–37 ●	
4.2 Position of the Chairman of the Board	33–37 ●	
4.3 Independence of the Board members	33–37 ●	
4.4 Mechanism for shareholder and employee consultation	33–37 ●	
4.5 Executive compensation and linkage to organization's performance	33–37 ●	
4.6 Processes for avoiding conflicts of interest	33–37 ●	
4.7 Processes for determining expertise	33–37 ●	
4.8 Implementation of mission and values statements; code of conduct	42–47 ●	
4.9 Procedures of the Board for overseeing risk management	33–37 ●	

GRI content	Page	Remarks
4.10 Processes for evaluating the Board's performance	33–37 ●	
4.11 Precautionary principle	31–31, 46, 56 ●	
4.12 Voluntary charters and other initiatives	8–11, 45 ●	
4.13 Memberships in associations	47 ●	
4.14 List of stakeholder groups	45–47 ●	
4.15 Identification and selection of stakeholders	45–47 ●	
4.16 Approaches to stakeholder engagement	45–47 ●	
4.17 Key topics raised through stakeholder engagement	45–47 ●	
<b>5 Management Approach and Performance Indicators</b>		
<b>Economic Performance Indicators</b>		
EC1 Direct economic value generated and distributed	48–51 ●	
EC2 Risks and opportunities due to climate change	32, 48–51 ●	
EC3 Coverage of defined benefit plan obligations	48–51 ●	
EC4 Significant subsidies received from government	48–51 ●	
EC5 Entry level wage compared to minimum wage	48–51 ●	
EC6 Spending on local suppliers	48–51 ●	
EC7 Local hiring	48–51 ●	
EC8 Infrastructure investments provided for public benefit	48–51 ●	
EC9 Significant indirect impacts	48–51, 70 ●	
<b>Environmental</b>		
EN1 Materials used by weight or volume	60–63 ●	Reporting system under the development.
EN2 Recycled materials used	60–63 ●	Reporting system under the development.
EN3 Direct energy consumption	60–63 ●	
EN4 Indirect energy consumption	60–63 ●	
EN5 Energy saved due to conservation and efficiency improvements	○	
EN6 Initiatives to provide energy-efficient or renewable energy based products and services	54–59 ●	
EN7 Initiatives to reduce indirect energy consumption	○	
EN8 Total water withdrawal	60–63 ●	
EN9 Water sources significantly affected	60–63 ●	
EN10 Percentage and total volume of water recycled and reused	60–63 ●	
EN11 Location and size of land holdings in biodiversity-rich habitats	60–63 ●	
EN12 Description of significant impact of activities, products, and services on biodiversity	59–63 ●	Not applicable
EN13 Habitats protected or restored	○	Not applicable
EN14 Managing impacts on biodiversity	○	Not applicable
EN15 Species with extinction risk with habitats in areas affected by operations	○	Not applicable



GRI content	Page	Remarks
EN16 Total direct and indirect greenhouse gas emissions	60–63	Reporting system for indirect GHG emissions under the development
EN17 Other relevant indirect greenhouse gas emissions	60–63	
EN18 Initiatives to reduce greenhouse gas emission	54–63	
EN19 Emissions of ozone-depleting substances	60–63	Not applicable
EN20 NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions	60–63	
EN21 Total water discharge	60–63	
EN22 Total amount of waste	60–63	
EN23 Significant spills	60–63	
EN24 Transported, imported, exported, or treated hazardous waste		Not applicable
EN25 Water bodies and habitats affected by discharges of water		Not applicable
EN26 Mitigating environmental impacts of products and services	14–29, 54–59	www.wartsila.com/sustainability
EN27 Reclaimable products and reuse	Internet	www.wartsila.com/sustainability
EN28 Significant fines and sanctions for non-compliance with environmental regulations	60–63	
EN29 Environmental impacts of transportation		
EN30 Total environmental protection expenditures and investments	60–63	

#### SOCIAL

LA1 Breakdown of workforce	64–71	
LA2 Breakdown of employee turnover	64–71	
LA3 Employee benefits	64–71	
LA4 Coverage of collective bargaining agreements	64–71	
LA5 Minimum notice period regarding operational changes	64–71	
LA6 Representation in joint health and safety committees	64–71	
LA7 Injury, lost time injury, fatalities, absence rates	64–71	
LA8 Education and prevention programmes regarding serious diseases	64–71	Part of OHS management systems, which cover Wärtsilä employees
LA9 Health and safety topics covered in formal agreements with trade unions		
LA10 Average training hours per year	64–71	
LA11 Programmes for skills management	64–71	
LA12 Employees receiving regular performance and career development reviews	64–71	
LA13 Composition of governance bodies and breakdown of employees	36–39, 64–71	
LA14 Ratio of basic salary of men to women by employee category	64–71	

GRI content	Page	Remarks
<b>HUMAN RIGHTS</b>		
HR1 Investment agreements that include human rights clauses	64–71	
HR2 Suppliers and contractors that have undergone human rights screening	64–71	
HR3 Human rights related training for employees		Part of Code of Conduct training.
HR4 Incidents of discrimination and actions taken	64–71	
HR5 Supporting right to freedom of association and collective bargaining in risk areas	64–71	
HR6 Measures taken to eliminate child labour in risk areas	44–46, 64–71	
HR7 Measures taken to eliminate forced labour in risk areas	44–46, 64–71	
HR8 Human rights related training for security personnel	64–71	
HR9 Incidents involving rights of indigenous people and actions taken	64–71	

#### SOCIETY PERFORMANCE

S01 Managing impacts of operations on communities	64–71	
S02 Business units analyzed for corruption risks	64–71	
S03 Anti-corruption training	64–71	
S04 Actions taken in response to incidents of corruption	64–71	
S05 Public policy positions and participation in public policy development and lobbying	64–71	
S06 Contributions to politicians and related institutions	64–71	
S07 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	64–71	
S08 Fines and sanctions for non-compliance with laws and regulations	64–71	

#### PRODUCT RESPONSIBILITY

PR1 Assessment of health and safety impacts of products	42–47	
PR2 Non-compliance with regulations concerning health and safety impacts of products	64–71	
PR3 Product information required by procedures	42–47	
PR4 Non-compliance with regulations concerning product information and labelling	64–71	
PR5 Customer satisfaction	64–71	
PR6 Adherence to marketing communications laws, standards and voluntary codes	64–71	
PR7 Non-compliance with marketing communications regulations and voluntary codes	64–71	
PR8 Complaints regarding breaches of customer privacy	64–71	
PR9 Fines for non-compliance concerning the provision and use of products and services	64–71	

Core indicator  Additional indicator  Fully reported ● Partly reported ● Not reported ○

# Contents



- 1 Business review**
- 40 Sustainability**
- 76 Financial review**
- 78** Five Years in Figures
- 80** Calculation of Financial Ratios
- 81** Review by the Board of Directors 2007
- 90** Consolidated Financial Statements
  - 90** Income Statement
  - 91** Balance Sheet
  - 92** Cash Flow Statement
  - 93** Statement of Changes in Shareholders' Equity
  - 94** Accounting Principles for the Consolidated Accounts
  - 98** Notes to the Consolidated Financial Statements
- 115** Parent Company Financial Statements
  - 115** Income Statement
  - 115** Balance Sheet
  - 117** Cash Flow Statement
  - 118** Accounting Principles for the Parent Company
  - 119** Notes to the Parent Company Financial Statements
- 123** Proposal of the Board
  
- 124** Auditors' Report
- 125** Quarterly Figures 2006–2007
- 126** Shares and Shareholders
- 131** Wärtsilä on the Capital Markets 2007





# Financial review 2007



# Five Years in Figures

Five Years in Figures		IFRS	IFRS	IFRS	IFRS	FAS	FAS
MEUR		2007	2006	2005	2004	2004	2003
<b>Net sales</b>		<b>3 763</b>	3 190	2 639	2 478	2 478	2 357
of which outside Finland	%	<b>98.2</b>	98.5	97.7	96.2	96.2	97.1
Exports from Finland		<b>2 017</b>	1 726	1 405	1 292	1 292	1 241
Personnel on average		<b>15 337</b>	13 264	12 049	12 361	12 361	12 293
of which in Finland		<b>3 010</b>	2 641	2 572	3 246	3 246	3 463
Order book, Power Businesses		<b>6 308</b>	4 439	2 906	1 855	1 855	1 245
<b>From the income statement</b>							
Depreciation and impairment		<b>78</b>	72	72	63	85	156
Operating result		<b>379</b>	262	224	112	240	- 18
as a percentage of net sales	%	<b>10.1</b>	8.2	8.5	4.5	9.7	-0.8
Net financial items		<b>-8</b>	-7	-23	-4	-3	-16
as a percentage of net sales	%	<b>-0.2</b>	-0.2	-0.9	-0.2	-0.1	-0.7
Net income from investments available for sale		<b>-</b>	124	1	108	-	-
Share of profit of associates		<b>1</b>	68	11	1	1	-
Profit before taxes		<b>372</b>	447	212	217	236	-34
as a percentage of net sales	%	<b>9.9</b>	14.0	8.0	8.8	9.5	-1.5
Profit for the financial year		<b>265</b>	353	167	130	160	-39
as a percentage of net sales	%	<b>7.1</b>	11.1	6.3	5.2	6.5	-1.7
<b>From the balance sheet</b>							
Non-current assets		<b>1 283</b>	1 233	1 316	964	878	962
Current assets		<b>2 466</b>	1 955	1 553	1 433	1 448	1 421
Shareholders' equity attributable to equity holders of the parent		<b>1 315</b>	1 217	1 153	893	853	805
Minority interest		<b>10</b>	13	10	8	8	6
Interest-bearing liabilities		<b>283</b>	270	404	320	319	497
Non-interest-bearing liabilities		<b>2 141</b>	1 687	1 302	1 177	1 146	1 075
Balance sheet total		<b>3 749</b>	3 188	2 869	2 397	2 327	2 383
Gross capital expenditure		<b>231</b>	193	231	69	65	65
as a percentage of net sales	%	<b>6.1</b>	6.1	8.8	2.8	2.6	2.8
Research and development expenses <sup>3</sup>		<b>122</b>	85	70	73	59	70
as a percentage of net sales	%	<b>3.2</b>	2.7	2.7	3.0	2.4	3.0
Dividends paid for the financial year <sup>1</sup>		<b>216</b>	167	85	42	42	45
Supplementary dividend <sup>1</sup>		<b>192</b>	-	198	42	42	62
Dividends total		<b>408</b>	167	283	83	83	106

		IFRS	IFRS	IFRS	IFRS	FAS	FAS
MEUR		2007	2006	2005	2004	2004	2003
<b>Financial ratios</b>							
Earnings per share (EPS)	EUR	2.74	3.72	1.80	1.42	1.75	-0.44
Diluted EPS	EUR	2.73	3.71	1.78	1.42	-	-
Dividend per share <sup>1</sup>	EUR	4.25	1.75	3.00	0.90	0.90	1.17
Dividend per earnings <sup>1</sup>	%	155.1	47.0	166.7	64.1	51.4	-
Interest coverage <sup>2</sup>		13.7	13.1	8.3	17.2	20.1	4.4
Return on investment (ROI)	%	26.0	31.8	18.0	18.0	20.4	0.1
Return on equity (ROE)	%	20.8	29.5	16.3	15.0	19.7	-4.5
Solvency ratio 1 <sup>2</sup>	%	45.9	47.0	46.6	40.8	40.3	35.0
Solvency ratio 2 <sup>2</sup>	%	45.9	47.0	46.6	40.8	40.3	36.2
Gearing 1 <sup>2</sup>		-0.01	0.07	0.24	0.17	0.18	0.48
Gearing 2 <sup>2</sup>		-0.01	0.07	0.24	0.17	0.18	0.43
Equity per share	EUR	13.70	12.74	12.25	9.65	9.22	8.69

<sup>1</sup> Proposal of the Board of Directors. Financial ratios calculated from total amount of dividend.

<sup>2</sup> Please refer to the Calculation of Financial Ratios on page 80.

<sup>3</sup> Accounting 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 2007

## Highlights of 2007

Demand accelerated during the spring and once again ordering levels hit an all time high both in terms of vessels ordered and tonnage. As regards the number of vessels the contracting level was approx. 20% above the previous years' level, while tonnage was 40% higher than in 2006. Demand in the Power plant market remained high and all segments relevant to Wärtsilä - baseload production, industrial self generation and grid stability and peaking as well as power solutions for the oil and gas industry - were active during the review period. Markets continued to be globally active. Due to the high market activity Wärtsilä again received a record number of new orders in 2007 and the order book stood at an all-time high. Net sales grew 18% to 3,763 million euros (3,190) and operating profit improved by 45% to 379 million euros (262). Profitability was 10.1% (8.2). The investment programs to increase the production capacity of medium speed engines in Finland and Italy were finalized. Investments to increase the propulsion production capacity proceeded according to plan. Wärtsilä continued to develop its business and pursue its strategy by broadening its product portfolio and geographical presence.

### Net sales

MEUR	2007	2006	Change %
Ship Power	1 320	985	34.0
Services	1 550	1 266	22.4
Power Plants	882	934	-5.6
Other operations and intra-group sales	12	4	
<b>Group</b>	<b>3 763</b>	<b>3 190</b>	<b>18.0</b>

## Strategy and objectives

Wärtsilä's strategic aim is to strengthen its leading position in its markets and to ensure continued growth by offering its customers the best lifecycle efficiency and reliability available. This is made possible by an integrated equipment and service portfolio that matches customers' needs globally. Wärtsilä will also grow by adding new products and services to its offering and by broadening its global geographical presence. 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 acquisitions and joint ventures in 2007

To support the growth targets, Wärtsilä has taken several strategic steps aimed at broadening the Services and Ship Power product offering, and increasing geographical presence in key areas.

In January Wärtsilä and Hyundai Heavy Industries Co. Ltd (HHI) signed an agreement to set up a 50/50-owned joint

venture in Korea to manufacture dual-fuel engines for LNG (liquefied natural gas) carriers.

In February Wärtsilä acquired the Swedish company Senitec AB. The company specializes in environmental technology products for separating waste, such as oily water and sludge, in power plants, harbours and ships.

In February Wärtsilä acquired the entire business of Marine Propeller (Pty) Ltd in Cape Town, South Africa. Marine Propeller (Pty) Ltd focuses mainly on repairing propellers.

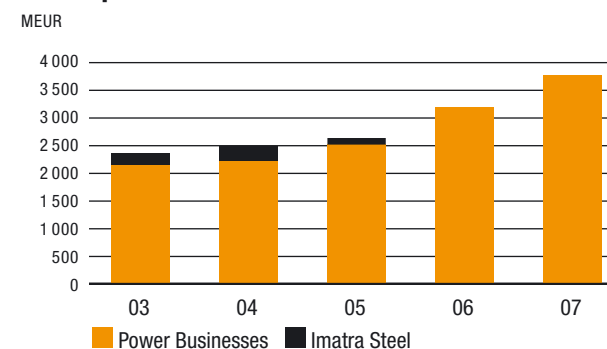
In May Wärtsilä continued extending its service offering in Propulsion services with the acquisition of UK-based propeller repair company McCall Propellers Ltd.

In July Wärtsilä acquired the marine business of Railko Ltd. in the UK, a company specializing in stern tube bearing technology.

In August the Scottish company, Electrical Power Engineering (Scotland) Ltd was acquired. The company specializes in electrical power engineering solutions for the marine, offshore, industrial and utilities segments.

The total price of these acquisitions was EUR 43 million, out of which EUR 25 million is reported as goodwill.

## Development of net sales



### Other strategic issues

In January Wärtsilä announced a public offer to the minority shareholders of Wärtsilä India Ltd to acquire 1,240,599 shares, or 10.3% of the share capital. The delisting offer was successful and 8.5% of the total shares were acquired. The shares of Wärtsilä India Ltd were de-listed from the Bombay Stock Exchange on 18 June 2007.

To improve marine customer service in the rapidly growing Chinese markets, Wärtsilä opened a large reconditioning workshop in Shanghai in March. In May, a service workshop and an office were opened in Vietnam to serve the growing Vietnamese shipping, shipbuilding and power industries.

The demand for training services is steadily growing and Wärtsilä opened a new training centre in South Korea, the world's largest shipbuilding country, to provide training for customers' engineers.

In May Wärtsilä and Vietnam Shipbuilding Industry Corporation (Vinashin) signed a licence agreement for the manufacture and sale of Wärtsilä low-speed marine engines in Vietnam.

In October Wärtsilä and Bryansk Engineering Works (BMZ), signed a licence agreement for the manufacture of Wärtsilä low-speed marine diesel engines in Russia.

In November Wärtsilä and V.Ships, a company specialising in ship management, agreed to cooperate on the provision of a broad spectrum of marine technical services in the marine market.

Wärtsilä Ship Power was reorganised into five Ship Power customer segments: Merchant, Offshore, Cruise&Ferry, Navy and Special vessels. The aim is to better respond to market requirements and technology development, as well as to be prepared for market fluctuations.

### Financial targets

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

## The year 2007

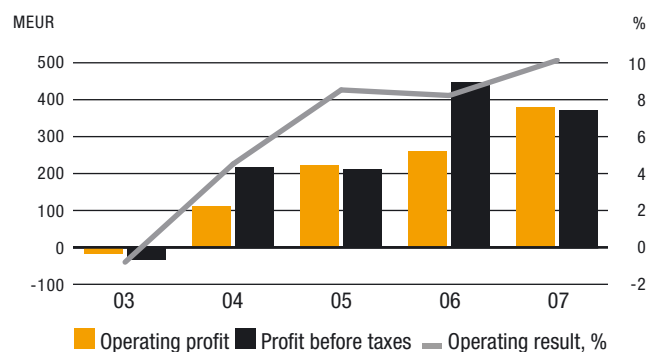
### Operating environment and markets

#### Ship Power markets continued active in 2007

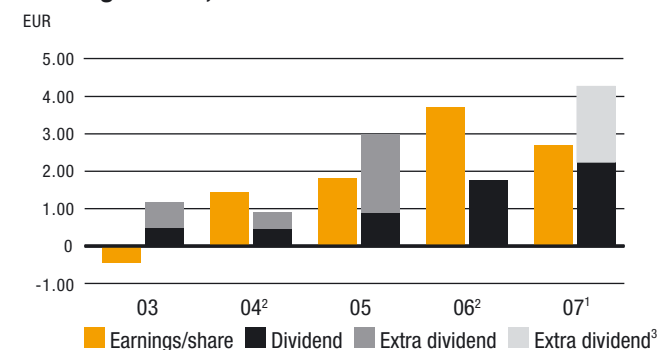
Demand accelerated during the spring and once again ordering levels hit an all time high both in terms of vessels ordered and tonnage. As regards the number of vessels the contracting level was appr. 20% above the previous years' level, while tonnage was 40% higher than in 2006. Although the total annual volume was clearly above 2006, vessel orders were lower in December than in earlier months of the year. This appears to be due to a somewhat more nervous atmosphere in the market and slightly softened freight rates.

During the year demand was very strong especially in the merchant vessel segment. This was fuelled by the very high ordering of the bulk carriers driven by high earnings of owners. Demand for container vessels was brisk, and was even surprisingly strong in the bigger end of the vessel range. As expected, tanker orders declined after the record year in 2006. During the review period the LNG vessel market was not active and new investments were postponed due to delays of related production and terminal facility investments.

### Result



### Earnings/share, dividend/share



<sup>1</sup> Proposal by the board 2007

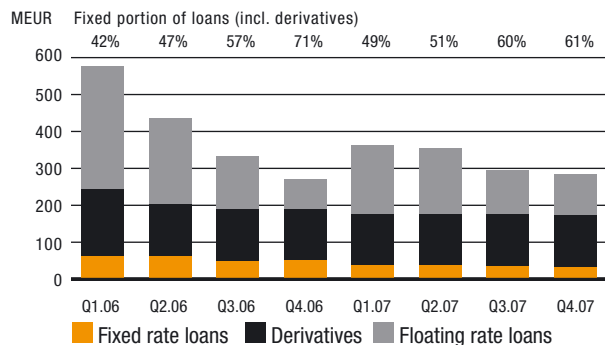
<sup>2</sup> Includes non-operational income; Assa Abloy & Ovako

<sup>3</sup> Proposal by the Board made 27 February 2008

For the offshore segment the year was good with high utilization and day rates. The very high oil price has made investments into the offshore segment very attractive. Exploitation of deeper water reserves requires new kinds of equipment which has also increased demand in this segment. During the review period many new semi-submersible rigs, drill ships and pipe layers were ordered. After very strong demand in 2006 a slowdown could be seen in the market for anchor handlers and supply vessels, mainly due to long lead times and a fear of over capacity. Demand in the more stable cruise and ferry market remained at the same levels as 2006. In the special vessel segment, demand was lower only for tugs, especially in Asian shipyards. This was mainly due to allocation of building slots to other vessel types. In European yards, the volumes remained at last year's levels.

China continued its growth in shipbuilding, and with 41% of new vessels ordered in 2007, became the leading shipbuilding nation. Korea, the second biggest shipbuilding nation had 30% of new vessel orders and Japan and Europe 10% each. Other countries accounted for 9%. Compared to the corresponding period in 2006 both China and Korea gained market share whereas the market shares of Japan and Europe have decreased.

## Loans

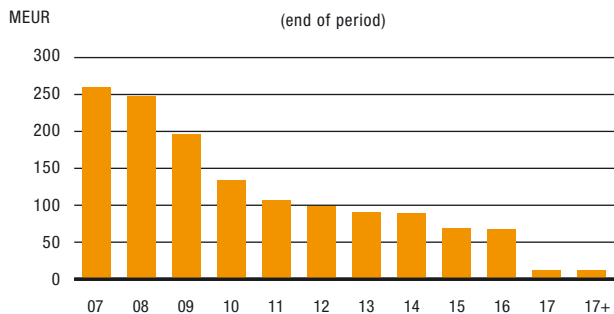


## Market shares in Ship Power

The total market volume for medium-speed main engines at the end of fourth quarter was 8,800 MW (8,700 at the end of the previous quarter) and Wärtsilä's market share was 38% (42 at the end of the previous quarter). Wärtsilä's market share has somewhat suffered from capacity constraints and longer lead times. Another reason behind the decrease in market share was the inactivity in the LNG segment where Wärtsilä's 50 DF engine has had a very strong position. Wärtsilä's market share for low-speed main engines remained unchanged at 16% (16), whereas the total market volume grew strongly to 38,100 MW (34,100 at the end of the previous quarter). The market for auxiliary engines totalled 9,000 MW (8,200) and Wärtsilä's market share was 6% (5).

In propulsor equipment Wärtsilä managed to regain its position in fixed pitched propellers (FPP) with the help of the investment it made in the Chinese joint venture company. In 2007 Wärtsilä's market share for FPP's increased to 15% from 11% in the corresponding period 2006. In controllable pitched propellers (CPP), Wärtsilä has suffered from capacity constraints and its market share has, therefore, declined to 18% (36).

## Long-term credits



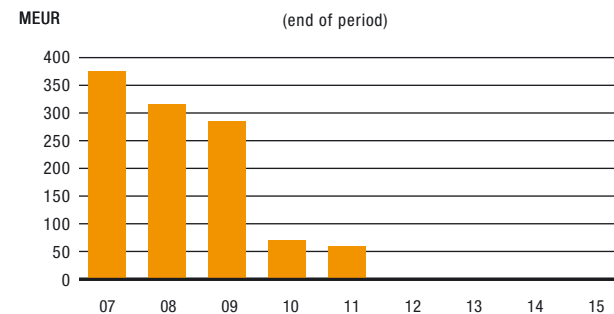
## Demand in the Power Plant markets remained high

Demand in the Power plant market remained high and all segments relevant to Wärtsilä - baseload production, industrial self generation and grid stability and peaking as well as power solutions for the oil and gas industry - were active during the review period. Markets continued to be globally active. Demand for oil-fired power plants was strong during the review period, especially in Africa and the Middle East. The order intake for power plants running on renewable fuels, which includes among others liquid bio-fuel power plants, continued actively especially in Italy. Demand for gas-fired power plants, remained at a good level.

## Wärtsilä's market shares in Power Plants

According to the statistics compiled by Diesel and Gas Turbine magazine, Wärtsilä's market share of heavy fuel oil plants between June 2006 and May 2007 was 38% (34%). In the market for light fuel oil to Wärtsilä, Wärtsilä's market share increased to 24% (23%), mainly as a result of high demand for Wärtsilä's power plants fuelled by liquid bio-fuels. The market for gas power plants, including both reciprocating engines and gas turbines was roughly 10,900 MW (10,400), Wärtsilä's share in this

## Revolving credits





segment was 12 % (8%). The total global market for oil and gas power plants in Wärtsilä's power range was 14,060 MW (14,750).

## Strong ordering continued

During the review period January - December 2007 the order intake totalled EUR 5,633 million (4,621), representing growth of 22%. Most new orders, EUR 2,600 million (2,270), were registered in Ship Power and represented a growth of 15% on the corresponding period 2006.

In Ship Power the order intake was clearly dominated by the offshore segment at the beginning of the year. Wärtsilä booked many orders for semi-submersible rigs, drill ships, floating production units as well as for various supply vessels. One of the big landmarks during 2007 was the contract to supply an entire power, automation and propulsion system for a well-testing FPSO vessel for Brazilian Dynamic Producer Inc. In the offshore supply vessel market the greatest demand came from the Norwegian, Singaporean and Chinese shipyards. The offshore segment represented 36% of total Ship Power order intake in 2007. During the latter part of 2007 various kinds of merchant vessels were the more dominant, and ordering activity for smaller offshore supply vessels showed a slight

slowdown from the previous very strong boom. The merchant vessel segment represented 43% of the total order intake for Ship Power. The merchant vessel segment includes both larger vessels that use low-speed main engines and smaller vessels with medium-speed main engines. Vessels using medium-speed main engines are of stronger relevance to Wärtsilä from an earnings point of view due to the licensee business model of the low-speed engine manufacturing and Wärtsilä's better market position in medium-speed applications. During the review period Wärtsilä received orders for bulk carriers, various cargo vessels and tankers. The ship yards in the merchant vessel segment are mainly situated in Korea and China. The special vessels segment represented 10%, cruise&ferry 7% and navy 5% of Ship Power's total order intake for the review period.

During the review period growth in Power Plant orders was very strong at 38% and totalled EUR 1,421 million (1,027). The increase in order intake was mainly based on flexible baseload power plants orders from Africa, the Americas and Europe. The largest single orders came from Pakistan, Morocco, Trinidad and Tobago, Senegal and El Salvador. Flexible baseload power plants accounted for 67% of Power Plants total order intake. In the industrial self-generation segment the Italian

liquid bio-fuel market continued to be active during 2007 and Wärtsilä received orders totalling more than 400 MW in total. The industrial self-generation customer segment accounted for 20% of total Power Plant orders in 2007. Important oil and gas industry orders were received from Russia, Hungary, the Ukraine, Ecuador and Peru. This customer segment accounted for 11% of total order intake.

At the end of the review period Wärtsilä's order book stood at EUR 6,308 million (4,439), a growth of 42%. The Ship Power order book stood at EUR 4,292 million (3,020), representing growth of 42%. The Power Plants order book was 52% higher than in the previous year and totalled EUR 1,608 million (1,061). The order book combined with active projects gives Wärtsilä a good baseload for 2009.

## Net sales grew strongly

Wärtsilä's net sales for the review period totalled EUR 3,763 million (3,190), a growth of 18%. Ship Power net sales grew strongly by 34% and amounted to EUR 1,320 million (985). Services net sales grew by 22% to EUR 1,550 million (1,266), with 19% of the full-year Services net sales being organic. Power Plant net sales fell by 6% to EUR 882 million (934).

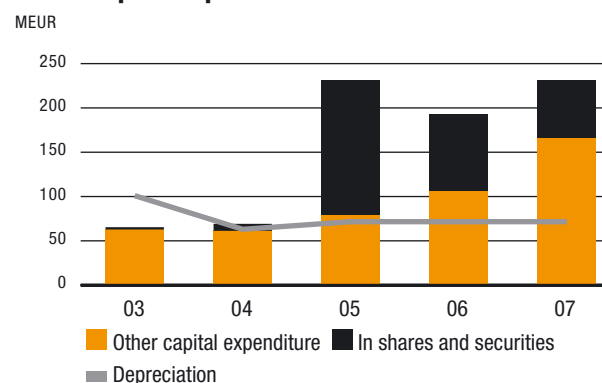
### Interest-bearing loan capital

MEUR	2007	2006
Long-term liabilities	245	205
Current liabilities	38	66
Loan receivables	-14	-36
Cash and bank balances	-296	-179
<b>Net</b>	<b>-27</b>	<b>55</b>

### Gross capital expenditure

MEUR	2007	2006
Investments in securities and acquisitions	65	86
Other investments	166	107
<b>Group</b>	<b>231</b>	<b>193</b>

### Gross capital expenditure



Growth in Power Plants during the review period was limited by capacity and slot allocation between Ship Power and Power Plants. Services net sales accounted for 41% of total net sales, Ship Power for 35% and Power Plants for 24%.

### Operating profit improved, strong profitability

In the review period 1-12/2007 the operating result improved to EUR 379 million (262), representing profitability of 10.1% (8.2).

In the review period 1-12/2007 the financial items amounted to EUR -8 million (-7). Net interest totalled EUR -11 million (-13). Profit before taxes was EUR 372 million (447, out of which EUR 191 million refers to Wärtsilä's share of Ovako profit after taxes and sales of Assa Abloy B shares).

Taxes in the reporting period amounted to EUR 106 million (94). Taxes in the comparison period included deferred tax assets totalling EUR +26 million relating to previously recognized restructuring expenses.

Net income was EUR 265 million (353).

Earnings per share for the review period were EUR 2.74 (3.72, comparable EPS 2.03). Return on Investment (ROI) was 26.0% (31.8). Return on Equity (ROE) was 20.8% (29.5).

### Financial position strong

Cash flow from operating activities was 431 million (302). The financial position was strong. In addition to strong cash flow from operating activities, advanced payments increased during the review period and were EUR 860 million (572). Liquid reserves at the end of the period amounted to EUR 296 million (179). Net interest-bearing loan capital totalled EUR -27 million (55). The solvency ratio was 45.9% (47.0) and gearing was -0.01 (0.07).

### Capital Expenditure

Gross capital expenditure in the review period totalled EUR 231 million (193), which comprised EUR 65 million (86) in acquisitions and investments in securities and EUR 166 million (107) in production and information technology investments. Depreciation amounted to EUR 78 million (72).

During the review period, investments in the factories in Vaasa, Finland and Trieste, Italy amounted to EUR 33 million and the investment in the enlargement of propulsion equipment manufacturing in the Netherlands and China amounted to EUR 17 million. In addition, Wärtsilä had commitments related to the investment programmes amounting to EUR 9 million, while Wärtsilä's commitment related to the investment programme in

the Korean joint venture Wärtsilä Hyundai Engine Company Ltd. amounted to EUR 12 million at the end of the review period. Due to the strong volume growth, the total capital expenditure for 2008 is expected to be EUR 200 million excluding acquisitions.

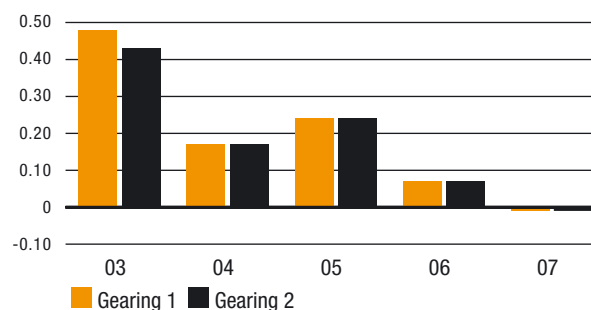
### Holdings

Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% of the total. This holding has been booked in the balance sheet at its market value at the end of the reporting period, EUR 100 million.

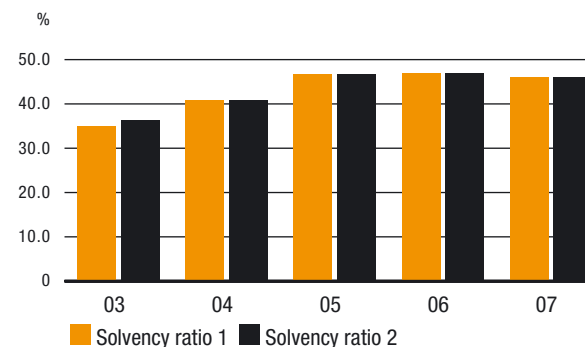
### Personnel

Wärtsilä Group had, on average, 15,337 (13,264) employees during the year 2007 and 16,336 (14,346) at year end. The total personnel increase was 1,990 people. The increase came mainly through new recruitments with 107 employees coming via acquired companies. 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 385 persons in 2007.

### Gearing



### Solvency ratio



## Sustainable development

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

## 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 2001 option scheme ended March 31 2007.

Under the terms and conditions of Wärtsilä's 2001 and 2002 option schemes, the share subscription price of the 2001 options was 14.60 euros and the share subscription price of 2002 options is 7.40 euros.

During the subscription period 3,418,944 shares were subscribed based on the 2001 and 2002 option schemes, which corresponds to 3.7% of the total number of shares. A total of 31,056 shares have not been subscribed.

## Annual General Meeting

Wärtsilä's Annual General Meeting on 14 March 2007 approved the financial statements and discharged the company's President & CEO and the members of the Board of Directors from liability for the financial year 2006. The Meeting approved the Board of Directors' proposal to pay a dividend of 1.75 euros per share.

Wärtsilä's Annual General Meeting decided that the Board of Directors shall have six members. The following were elected to the Board: Ms Maarit Aarni-Sirviö, Mr Heikki Allonen, Mr Göran J. Ehrnrooth, Mr Antti Lagerroos, Mr Bertel Langenskiöld and Mr Matti Vuoria.

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

## Authorizations granted to the Board of Directors

The AGM authorized the Board to issue new Series A and/or Series B shares in one or several instalments. The share issue can be executed on the conditions and at the price determined by the Board.

Under this authorization at most a total of 9,555,434 new shares may be issued. Within this total amount of shares

- at most 2,357,958 new A shares and at most 7,197,476 new B shares are issued to the shareholders in proportion to their existing holdings, and/or
- at most 9,555,434 B shares are issued, disapplying the pre-emptive right of the shareholders provided that the Company has important financial grounds for doing so.

The authorization may be exercised, within the restrictions listed above, to develop the company's capital structure, to broaden its ownership base, as consideration in acquisitions or when the company acquires assets related to its business. The rights issue may also be executed as payment in kind or by using the right of set-off.

The authorization remains in force until the following Annual General Meeting. The authorization was not exercised during the review period.

## Board of Directors

The Board of Directors of Wärtsilä Corporation 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 Maarit Aarni-Sirviö, Heikki Allonen and Matti Vuoria.

### Nomination Committee:

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

## Shares and shareholders

31 Dec. 2007	A share	B share	Total
Number of shares	23 579 587	72 389 974	95 969 561
Number of votes	235 795 870	72 389 974	308 185 844
Shares traded 1 January–31 December 2007	13 412 121	125 257 269	138 669 390
Foreign shareholders	31 Dec. 2007 50.0%		31 Dec. 2006 29.3%

## Wärtsilä share on the Helsinki Stock Exchanges

EUR	High	Low	Average <sup>1</sup>	Close
1 Jan.–31 Dec. 2007				
A share	58.00	38.05	49.63	53.09
B share	58.89	38.44	48.04	52.09

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

## Market capitalization

MEUR	31 Dec. 2007	31 Dec. 2006
	5 023	3 898



**Compensation Committee:**  
Chairman Antti Lagerroos;  
Members Heikki Allonen and Matti Vuoria.

## Share capital and shares

A total of 415,209 Wärtsilä B shares were subscribed during the period under the 2001 and 2002 option schemes. This increased the share capital by EUR 1,453,231.50 following which, the share capital amounts to EUR 335,893,463.50.

## Changes in ownership

During 2007 Wärtsilä was notified of the following changes in ownership in accordance with the Finnish Securities Act chapter 2 Paragraph 9:

On 3 July 2007 Varma Mutual Pension Insurance Company increased its holding in Wärtsilä Corporation. Following the transaction Varma owned 2,795,615 A shares and 1,188,691 B shares giving a total holding of 3,984,306 Wärtsilä shares or 4.16% of Wärtsilä's share capital and 9.46% of the total votes.

On 3 July 2007 Sampo plc decreased its holding in Wärtsilä Corporation. Following the transaction Sampo owns 584,668 A shares or 0.61% of Wärtsilä's share capital and 1.90% of the total votes.

On 22 August 2007 Svenska Litteratursällskapet i Finland r.f. increased its holding in Wärtsilä Corporation. Following the transaction it owns over 1/20 of the company's votes, 1,546,596 A shares and 17,000 B shares giving a total holding of 1,563,596 Wärtsilä shares or 1.63% of Wärtsilä's share capital and 5.03% of the total votes.

On 23 August 2007 Varma Mutual Pension Insurance Company increased its holding in Wärtsilä Corporation. Following the transaction it owns over one tenth (1/10) of the company's votes, 3,547,257 A shares and 1,188,691 B shares giving a total holding of 4,735,948 Wärtsilä shares or 4.94% of Wärtsilä's share capital and 11.91% of the total votes.

On 20 December 2007 Fiskars Corporation decreased its holding in Wärtsilä Corporation to less than 1/20 (5%) of the share capital and voting rights. Following the transaction it holds 752,047 A shares and 65,429 B shares giving a total holding of 817,476 shares or 0.85% of Wärtsilä's share capital and 2.46% of the total votes.

On 20 December 2007 Avlis AB, a wholly owned subsidiary of Fiskars Corporation, increased its holding in Wärtsilä Corporation to more than 3/20 (15%) of the share capital and more than 1/4 (25%) of the voting rights. Following the transaction it

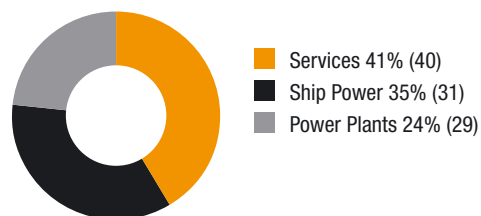
holds 8,500,000 A shares and 6,500,000 B shares giving a total holding of 15,000,000 shares or 15.63% of Wärtsilä's share capital and 29.69% of the total votes.

## Manufacturing

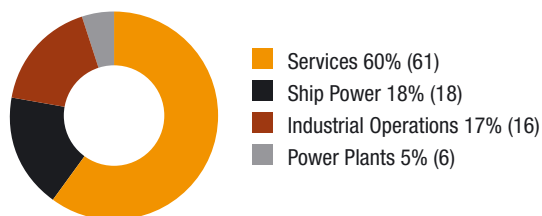
During 2007 the investment programs to increase the production capacity of medium speed engines in Finland and Italy were finalized. The new production assets were ramped up to full utilization during the fourth quarter as planned. In terms of output a total of 5,416 MW (4,256) of four-stroke engines manufactured in Wärtsilä's own factories were delivered during 2007. In 2008 Wärtsilä estimates engine deliveries from its own factories to exceed 6,000 MW.

The establishment of joint ventures and capacity investments are proceeding according to plan. Construction work in the joint venture with Hyundai Heavy Industries in Korea to manufacture dual fuel engines for the LNG market has started and capacity will be available in the fourth quarter of 2008. To meet increasing demand in Asia, and in particular the growing shipbuilding market in China, Wärtsilä has established a joint-venture with CSIC and Mitsubishi Heavy Industries to manufacture low-speed engines in China. The project is proceeding

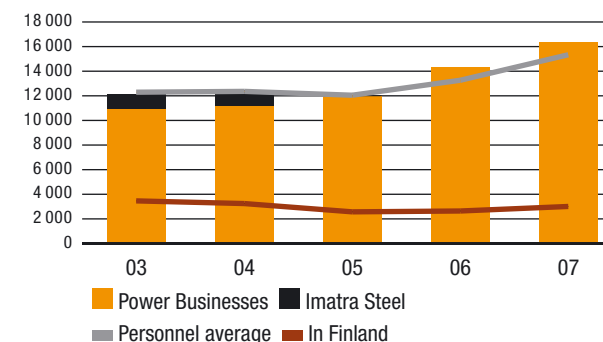
## Net sales by business area



## Personnel by businesses



## Personnel



according to plan and manufacturing is scheduled to start during the fourth quarter of 2008. The capacity additions from the joint venture engine factories will become operational mainly in 2009.

Investments to increase the propulsion production capacity in the Netherlands became operational during the last quarter of 2007. Investments to increase the propulsion production capacity in Norway and India for gearboxes and controllable pitch propellers are proceeding according to plan and will become operational during the second half of 2008. Wärtsilä's joint venture company, Wärtsilä CME Zhenjiang Propeller Co. Ltd., doubled its production capacity for fixed pitch propellers, making the company the biggest manufacturer of this type of propellers in China and one of the biggest in the world. Production of compact thrusters and seals & bearings in the Wärtsilä's facilities in Wuxi in China started in the third quarter and full capacity utilization will be achieved during 2008.

The integration of engine and propulsion manufacturing and R&D into one global organisation called Wärtsilä Industrial Operations was finalized in 2007.

During the review period Wärtsilä continued to develop capacity for critical components and investments have been implemented by many of the company's supplier. The main part of the investments became operational in 2007.

## R&D

During 2007 several R&D milestones were achieved. Wärtsilä, together with other European players, has participated in a large SOFC (Solid Oxide Fuel Cell) project. A significant milestone in this project was the start up of the WFC20 fuel cell prototype in the Wärtsilä Fuel Cell test centre in October.

In 2007 Wärtsilä and MAN Diesel submitted a follow-up of the Hercules project, a new large-scale collaborative research project – Hercules-Beta to the European Commission. The principal aim of the proposed Hercules-Beta is to considerably improve the efficiency of marine diesel propulsion systems and achieve substantial reductions in fuel consumption and emissions. The first phase of the Hercules project ended in September.

Wärtsilä signed an agreement on research and development cooperation with the University of Vaasa and the University

of Applied Sciences in Vaasa. This is an additional step in Wärtsilä's efforts to increase co-operation between Wärtsilä and universities globally.

During the review period the Wärtsilä Auxpac 26 engine was successfully tested. The Auxpac 26 engine enhances Wärtsilä's Auxpac product range to meet market demand for bigger auxiliary engines. Deliveries of Auxpac 26 will start in 2008.

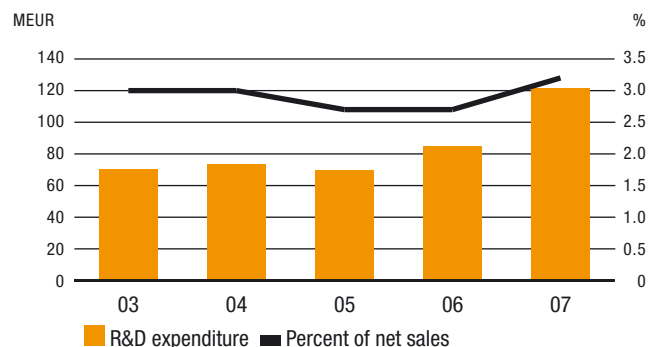
Wärtsilä introduced the new 20-cylinder 46F engine, which offers more power and less emission while maintaining high energy efficiency, for power plant installations.

In 2007 Wärtsilä's research and development expenses totalled EUR 122 million (85).

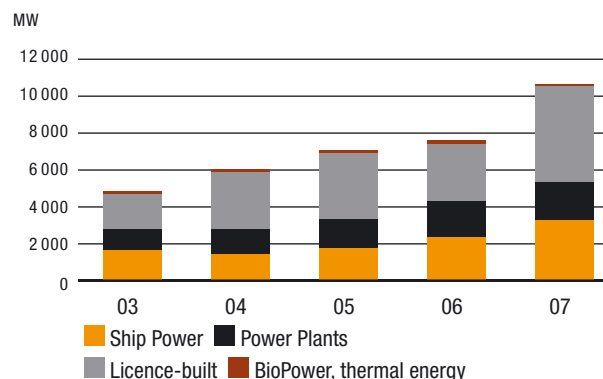
## Risks and business uncertainties

The short supply of certain key components continues. Bottlenecks exist, for example, in castings and forgings where global demand exceeds supply. Various measures by Wärtsilä to ensure the availability of these key components have continued and a number of suppliers have invested in their production capacity, many of which are already operational.

## R&D expenditure



## Megawatts delivered



## Megawatts delivered

	2007	2006	Change%
Power Plant engines	2 056	1 944	5.8
Ship Power, own engines	3 287	2 397	37.1
Wärtsilä total	5 343	4 341	23.1
By licensees	5 228	3 120	67.6
BioPower, thermal energy	73	167	-56.3
<b>Engine delivery total</b>	<b>10 644</b>	<b>7 628</b>	<b>39.5</b>

## Board of Director's proposal to the AGM 2008

The Board of Directors proposes to the Annual General Meeting on 19 March 2008 that a dividend of 2.25 euros per share be paid for the financial year 2007.

## Market outlook 2008

The strongly growing fleet has for a longer period of time already, suggested a weakening flow of new vessel orders. Despite the expectations of normalised demand, activity in the shipping and shipbuilding markets continued to be very high until the end of the year. During the autumn the sentiment in the market has become more cautious and slightly softened freight rates have also had an impact. The US credit crisis has tightened the financial market and also impacted the attractiveness of new investments, although it should be noticed that ship owners have operated on very profitable markets for a long period of time and are therefore not directly dependent on the credit market for funding new investments. Even though ordering levels seem to have normalised during the last month of 2007 it is still too early to judge whether this is an indication of a start of a more stable period or if the market is temporarily catching its breath. For Wärtsilä Ship Power ordering activity remains on a good level and a stable order flow is expected to continue for at least the next quarter. During the latter part of the spring some slow down in ordering activity might be seen.

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 demand are environmental concerns and fuel availability

issues. Flexible baseload as well as industrial self-generation are forecasted to remain active market segments throughout the Middle East, Africa and the Americas. Power Plants sees continued growth potential in the grid stability services market in North Americas as well as other developed countries. It is foreseen that the liquid bio-fuel market will remain active in Central Europe. The growth economies Brazil, Russia, India and China offer interesting market potential for Wärtsilä. Wärtsilä's power plant solutions are ideally suited for today's markets which require high efficiency and operational flexibility as well as environmental sustainability. For Wärtsilä Power Plants continued high ordering activity is expected in all segments during at least the first half of 2008.

Due to the long order book Wärtsilä has time to react to potential fluctuations in the market. This is supported by the flexible manufacturing model and the solid growth in the Services business. The Services business will continue to constitute a considerable share of Wärtsilä's net sales.

## Wärtsilä's prospects in 2008

Based on the strong order book, Wärtsilä's net sales are expected to grow by about 25% in 2008. Profitability will exceed 11%. Wärtsilä's profitability varies considerably from one quarter to another. This pattern will repeat itself during the current year. The first quarter is likely to be the weakest and the last quarter the best.

4 February 2008

Wärtsilä Corporation  
Board of Directors

## Board's proposal to the AGM 2008 for an extra dividend

In addition to the proposal made on 4 February 2008, the Board proposes to the Annual General Meeting 2008 that an extra dividend of EUR 2.00 per share be paid for the financial period 2007.

27 February 2008

Wärtsilä Corporation  
Board of Directors



# Consolidated Financial Statements

## Consolidated Income Statement

MEUR	Note	2007	%	2006	%
<b>Net sales</b>	1,3	<b>3 763</b>	100.0	3 190	100.0
Change in inventories of finished goods & work in progress		<b>59</b>		88	
Work performed by the Group and capitalized		<b>8</b>		2	
Other income	4	<b>21</b>		25	
Material and services	5	<b>-2 249</b>		-1 955	
Employee benefit expenses	6	<b>-728</b>		-629	
Depreciation	7	<b>-78</b>		-72	
Other expenses		<b>-417</b>		-387	
<b>Operating result</b>		<b>379</b>	10.1	262	8.2
Income from financial assets	8	<b>7</b>		8	
Interest income	8	<b>8</b>		4	
Other financial income	8	<b>12</b>		23	
Interest expenses	8	<b>-18</b>		-17	
Other financial expenses	8	<b>-16</b>		-26	
Net income from investments available for sale	15			124	
Share of profit of associates	13	<b>1</b>		68	
<b>Profit before taxes</b>		<b>372</b>		447	
Income taxes	9	<b>-106</b>		-94	
<b>Profit for the financial period</b>		<b>265</b>	7.1	353	11.1
Attributable to:					
Equity holders of the parent company	10	<b>262</b>		351	
Minority interest		<b>3</b>		2	
		<b>265</b>		353	
Earnings per share attributable to equity holders of the parent company:					
Earnings per share, EUR		<b>2.74</b>		3.72	
Diluted earnings per share, EUR		<b>2.73</b>		3.71	

### Consolidated Balance Sheet, Assets

MEUR	Note	31 Dec. 2007	%	31 Dec. 2006	%
<b>Non-current assets</b>					
Intangible assets	11	202		185	
Goodwill	11	445		417	
Property, plant and equipment	12	365		300	
Investment properties	12	13		15	
Equity in associates	13	16		3	
Investments available for sale	15, 17	155		183	
Interest-bearing investments	17	12		35	
Deferred tax receivables	20	70		87	
Other receivables	18	7		8	
		<b>1 283</b>	34.2	1 233	38.7
<b>Current assets</b>					
Equity in associates <sup>1</sup>	13	1		6	
Inventories	16	1 081		838	
Interest-bearing receivables	17	2		1	
Trade receivables	17	874		772	
Income tax receivables		11		8	
Other receivables	18	201		151	
Cash and cash equivalents	19	296		179	
		<b>2 466</b>	65.8	1 955	61.3
<b>Assets</b>		<b>3 749</b>	100.0	3 188	100.0

<sup>1</sup> Shares in Oy Ovako Ab.

### Consolidated Balance Sheet, Shareholders' equity and liabilities

MEUR	Note	31 Dec. 2007	%	31 Dec. 2006	%
<b>Shareholders' equity</b>					
Share capital	22	336		334	
Share premium reserve	22	61		58	
Translation differences		3		3	
Fair value reserve	24	127		128	
Retained earnings		788		693	
Total equity attributable to equity holders of the parent		<b>1 315</b>	35.1	1 217	38.2
Minority interest		10	0.3	13	0.4
<b>Total shareholders' equity</b>		<b>1 325</b>	35.3	1 230	38.6
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Interest-bearing debt	17, 26	245		205	
Deferred tax liabilities	20	81		74	
Pension obligations	21	45		53	
Provisions	25	25		20	
Advances received <sup>2</sup>		394		276	
Other liabilities	27	3		1	
		<b>792</b>	21.1	628	19.7
<b>Current liabilities</b>					
Interest-bearing debt	17, 26	38		66	
Provisions	25	139		117	
Advances received <sup>2</sup>		466		296	
Trade payables	17, 26	348		271	
Income tax liabilities		35		78	
Other liabilities	27	605		503	
		<b>1 632</b>	43.5	1 330	41.7
<b>Total liabilities</b>		<b>2 424</b>	64.7	1 958	61.4
<b>Shareholders' equity and liabilities</b>		<b>3 749</b>	100.0	3 188	100.0

<sup>2</sup> In 2006, the total amount of Advances received was presented in current liabilities.

## Consolidated Cash Flow Statement

MEUR	2007	2006	MEUR	2007	2006
<b>Cash flows from operating activities:</b>			<b>Cash flow from investing activities:</b>		
Profit before taxes	372	447	Investments in shares and acquisitions	-65	-86
Adjustments:			Investments in tangible and intangible assets	-166	-99
Depreciation	78	72	Proceeds from sale of shares	7	318
Financial income and expenses	8	6	Proceeds from sale of tangible and intangible assets	2	5
Selling profit and loss of fixed assets and other changes	-7	-129	Loan receivables, increase (-)/decrease (+) and other changes		2
Share of profit of associates	-1	-68	Dividends received from investments	7	8
Cash flow before changes in working capital	450	327	<b>Cash flow from investing activities</b>	<b>-214</b>	<b>148</b>
<b>Changes in working capital:</b>			<b>Cash flow after investing activities</b>	<b>217</b>	<b>450</b>
Current assets, non-interest-bearing, increase (-)/decrease (+)	-162	-125	<b>Cash flow from financing activities:</b>		
Inventories, increase (-)/decrease (+)	-251	-189	Issuance of share capital	4	19
Current liabilities, non-interest-bearing, increase (+)/decrease (-) <sup>1</sup>	548	365	New long-term loans	65	6
Changes in working capital	135	52	Amortization and other changes in long-term loans	-33	-37
<b>Cash flow from operating activities before financial items and taxes</b>	<b>585</b>	<b>379</b>	Loan receivables, increase (-)/decrease (+)	5	-7
<b>Financial items and taxes:</b>			Current loans, increase (+)/decrease (-)	31	-85
Interest and other financial expenses	-42	-24	Dividends paid	-168	-283
Interest and other financial income	15	4	<b>Cash flow from financing activities</b>	<b>-95</b>	<b>-387</b>
Income taxes	-127	-56	<b>Change in liquid funds, increase (+)/decrease (-)</b>	<b>122</b>	<b>63</b>
Financial items and taxes	-154	-77	Cash and cash equivalents at beginning of period	179	120
<b>Cash flow from operating activities</b>	<b>431</b>	<b>302</b>	Fair value adjustments, investments	1	1
			Exchange rate changes	-6	-4
			Cash and cash equivalents at end of period	296	179

<sup>1</sup> Including Advances received, current and non-current.



## Statement of Changes in Shareholders' Equity

MEUR	Total equity attributable to equity holders of the parent						Minority Interest	Total equity
	Share capital	Share issue premium	Translation differences	Fair value and other reserves	Retained earnings	Total		
<b>Shareholders' equity on 1 January 2006</b>	329	44	7	147	626	1 153	10	1 163
Translation differences			-4		-1	-5	-1	-5
Other changes							3	3
Available-for-sale investments								
gain/loss arising from fair valuation, net of taxes				25		25		25
transferred to income statement, net of taxes				-81		-81		-81
Cash flow hedges								
gain/loss arising from fair valuation, net of taxes				34		34		34
transferred to income statement, net of taxes				3		3		3
<b>Net income recognized directly in equity</b>			-4	-19	-1	-23	2	-22
Profit for the financial period					351	351	2	353
<b>Total recognized income and expenses for the period</b>			-4	-19	351	328	3	331
Options exercised	5	14				19		19
Dividends paid					-283	-283		-283
<b>Shareholders' equity on 31 December 2006</b>	334	58	3	128	693	1 217	13	1 230
Other changes							-6	-5
Available-for-sale investments								
gain/loss arising from fair valuation, net of taxes				-18		-18		-18
Cash flow hedges								
gain/loss arising from fair valuation, net of taxes				29		29		29
transferred to income statement, net of taxes				-13		-13		-13
<b>Net income recognized directly in equity</b>				-1		-1	-6	-7
Profit for the financial period					262	262	3	265
<b>Total recognized income and expenses for the period</b>				-1	262	261	-2	259
Options exercised	1	3				4		4
Dividends paid					-167	-167	-1	-168
<b>Shareholders' equity on 31 December 2007</b>	336	61	3	127	788	1 315	10	1 325

Additional information on share capital is presented in Note 22 and for fair value and other reserves in Note 24.

# 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 16,000 professionals manning over 150 Wärtsilä locations in 70 countries around the world.

## Basis of preparation

The consolidated annual financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) applying the IAS and IFRS standards, and their SIC and IFRIC interpretations, in force at 31 December 2007. 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 2007 the Group has applied the following updated standards:

- IFRS 7 Financial Instruments: Disclosures – The change has an impact on the notes to the financial statements.
- Amendment to IAS 1 Presentation of Financial Statements – The change has an impact on the notes to the financial statements regarding the managing of capital.
- IFRIC 8 Scope of IFRS 2 – No impact on the financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives – No impact on the financial statements.

- IFRIC 10 Interim Financial Reporting and Impairment – Does not require changes to the accounting principles of the financial statements.

## 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 that can affect warranty estimates with the result that such provisions are not always sufficient.

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

The recoverable amounts of tangible and intangible assets and

goodwill are determined for all cash-generating units annually or, if it is shown that the asset has lost value, 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 the acquisition

of minority interests, if the Group already has control before the minority acquisition, the acquired assets and liabilities are measured at book value on the date of acquisition, and the difference between the purchase price and the book value of the net assets is reported as goodwill. Goodwill is tested for impairment at least annually.

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

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

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

### **Joint ventures**

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

### **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 other income.

### **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 in the plan. 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.

The company's bonus programme, which is fixed to share value, is valued at the fair value of the share on the reporting date and reported in the income statement for the term-to-maturity of the bonus programme.

### **Goodwill and other intangible assets**

The difference between the purchase price and the fair value of a company's net assets and contingent liabilities at the date of acquisition is reported as goodwill. Goodwill consists of the



future economic benefit of those assets whose value the Group is unable to calculate either separately or individually at the date of acquisition. 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, customer relations and other intellectual property rights. These are valued at cost except for intangible assets identified in connection with acquisitions, which are valued at the fair value at the acquisition date. Intangible assets are amortized on a straight-line basis over their estimated useful lives. Intangible assets, for which the time limit for the right of use is agreed, are amortized over the life of the contract.

The general guidelines for scheduled amortization are:

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

## Property, 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. Grants received are reported as a reduction in acquisition costs. The fixed assets of acquired subsidiaries are valued at their fair value at the acquisition date. Depreciation is based on the following estimated useful lives:

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

## Investment properties

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

## Leases

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

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

## Inventory valuation

Inventories are carried at the lower of cost or net realizable value. 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 that 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 foreign exchange derivatives are eligible for hedge accounting in accordance with IAS 39. Changes in the fair value of derivative contracts that have been signed to hedge future cash flows are reported under shareholders' equity, provided that they meet the requirements for hedge accounting. Changes in fair value due to interest rate differences are reported in the income statement. Any accrued profit or loss in the hedge reserve under 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 exchange derivatives and foreign currency borrowings using the equity hedging method to reduce the effect of exchange rates on the Group's equity. When a foreign subsidiary is sold, these translation differences are included in the gain or loss on disposal reported in the income statement.

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

The fair value of interest rate swaps is calculated by discounting the underlying future cash flows. Currency forwards are valued at

existing forward rates at the 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 2008 the Group will adopt the following new and updated standards and interpretations issued by the IASB:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for periods beginning on or after 1 March 2007). The new interpretation clarifies the area of application of share-based payment involving an entity's own equity instruments. The new interpretation will have no impact on future financial statements.
- IFRIC 12 Service Concession Arrangements (effective for periods beginning on or after 1 January 2008). The Group does not have agreements with the public sector as intended by the interpretation, as a result of which the interpretation will have no impact on future financial statements. The interpretation has not yet been approved for application in the EU.

- IFRIC 13 Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008). The Group does not have customer loyalty programmes as intended by the interpretation, as a result of which the interpretation will have no impact on future financial statements. The interpretation has not yet been approved for application in the EU.
- FRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning on or after 1 January 2008). This interpretation is applied for defined retirement benefit plans and other long-term defined employment benefits when these plans involve minimum funding payments. The Group is currently assessing the impacts of this interpretation. According to initial assessments, the new interpretation will have no significant impact on future financial statements.

In 2009 the Group will adopt the following new and updated standards and interpretations issued by the IASB:

- IFRS 8 Operating Segments (effective for periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 Segment Reporting. According to the new standard, segment reporting is based on the internal reports of management and the measurement principles used therein. The Group will assess the possible impacts of segment reporting in the notes to future financial statements.
- Amendment to IAS 23 Borrowing Costs (effective for periods beginning on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The Group has thus far expensed capital expenditure in the reporting period during which they occurred. The Group considers that the change to this standard will not have a significant impact on future financial statements. The revised standard has not yet been approved for application in the EU.
- Amendment to IAS 1 Presentation of Financial Statements (effective for periods beginning on or after 1 January 2009). The revised standard changes the way in which financial statements are presented. The Group considers that the change will impact primarily the presentation of the income statement and the statement of changes in shareholders' equity. The revised standard has not yet been approved for application in the EU.

# Notes to the Consolidated Financial Statements

## 1. Segment information

The business of Wärtsilä consists of one business area, the Power Businesses. The Power Businesses are subdivided into two mutually supportive market areas, Ship Power and Power Plants. These offer customers the same product concept modified for specific applications. The main products for both these markets are gas and diesel engines and related services. The market segments are highly dependent on each other.

In the Power Businesses the design-related research and development and manufacturing required for the engines sold to both markets take place in the same R&D centres and factories, and the manufacturing process is the same for each market. Similarly, the same Group companies are responsible for the distribu-

tion of these products and the services related to them. Capacity costs cannot be reliably allocated to the two different markets. These costs are significant and vary between the two units in different years. Customers in both markets are capital-intensive corporations with global operations. Development of the two market areas is strongly linked to global economic trends.

As geographical segments Wärtsilä reports the geographical areas Europe, America, Asia and other continents. In the geographical segments net sales is split by the customer's destination and assets and investments by origin. Non-allocated assets and liabilities consist of tax assets and liabilities.

### Geographical segments 2007

MEUR	Europe	Asia	Americas	Other	Non-allocated	Group
Net sales	1 442	1 432	520	369		3 763
Assets	2 939	453	231	45	81	3 749
Investments	199	24	6	2		231

### Geographical segments 2006

MEUR	Europe	Asia	Americas	Other	Non-allocated	Group
Net sales	1 245	1 141	582	222		3 190
Assets	2 416	368	276	33	94	3 188
Investments	127	60	5	1		193

## 2. Acquisitions

### Acquisitions 2007

#### Overall impact on performance

MEUR	Booked in income statement 2007	On full-year pro forma performance
Net sales	15	3 798
Operating income	1	382

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.

#### Acquisitions

The Swedish company Senitec AB was acquired in February. The company specializes in environmental technology products for separating waste, such as oily water and sludge, in power plants, harbours and ships. The new business gives Wärtsilä the possibility to expand its offering of environmental solutions in waste management and it supports the Group's strategy to provide total solutions and packages to customers.

In February Wärtsilä acquired also the propeller repair business of the South African company Marine Propeller (Pty) Ltd. located in Cape Town. The acquisition expands Wärtsilä's offering in South Africa to include propeller repair. The knowledge, good reputation and customers that Marine Propeller will bring provide a good basis for this.

McCall Propellers Ltd., the largest UK-based marine propulsion support services company specializing in emergency repair of propeller equipment, was acquired in May. The knowledge and experience in propeller repair that McCall Propellers brings to Wärtsilä further broadens the Group's comprehensive propulsion services offering globally.

In July Wärtsilä acquired the marine business of the UK-based Railko Ltd., a company specializing in synthetic stern tube bearing technology. The acquisition improves Wärtsilä's competitive position in oil-lubricated bearing systems and adds water-lubricated bearings to the Group's product portfolio.

The Scottish company Electrical Power Engineering (Scotland) Ltd. specializing in electrical power engineering solutions for marine, offshore, industrial and utilities segments, was acquired in August. The acquisition will further expand the Group's service offering and add depth to Wärtsilä's existing automation business.



<b>Acquisition price</b>	MEUR
Consideration paid in cash	42
Acquisition costs	1
	43
Acquired assets to fair value	-18
Goodwill	25
<b>Cash flow from the acquisitions</b>	
Consideration paid in cash	42
Costs attributable to the acquisitions	1
Cash and cash equivalents of the acquired companies	-2
	41

#### Specification of acquired assets

	Book value	Fair value
Intangible assets		14
Property, plant and equipment	1	1
Inventories	3	3
Receivables	9	9
Cash and cash equivalents	2	2
Liabilities	-6	-6
Deferred tax liabilities		-3
<b>Total</b>	8	18

The assets, liabilities and contingent liabilities of the companies are measured at fair value at the time of acquisition. Intangible assets include development projects and customer relations, 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 synergic effects expected to materialize when the subsidiaries of the Group may start to utilize the acquired technology both in waste management and special services. In addition, Wärtsilä gained the expertise of the companies' personnel.

In addition to the above mentioned acquisitions, , Wärtsilä acquired 8.5% of Wärtsilä India Ltd. and at the end of the review period the percentage of ownership was 98.2%. The goodwill recognized was EUR 8 million.

#### Acquisitions 2006

##### Overall impact on performance

MEUR	Booked in income statement 2006	On full-year pro forma performance
Net sales	79	3 222
Operating income	8	265

#### 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, Total Automation Group

	MEUR
Consideration paid in cash	59
Acquisition costs	1
	60
Acquired assets to fair value	-23
Goodwill	37
<b>Cash flow from the acquisition</b>	
Consideration paid in cash	59
Costs attributable to the acquisition	1
Cash and cash equivalents of the Group acquired	-4
	56

#### Specification of acquired assets

	Book value	Fair value
Intangible assets	2	3
Property, plant and equipment	6	6
Holdings in Group and associated companies	1	1
Inventories	9	10
Receivables	11	11
Cash and cash equivalents	4	4
Liabilities	-11	-11
Deferred tax liabilities		-1
<b>Total</b>	22	23

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 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 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
Acquisition costs	1
	36
Acquired assets to fair value	-18
Goodwill	18

#### Cash flow from the acquisition

Consideration paid in cash	35
Costs attributable to the acquisitions	1
Cash and cash equivalents of the acquired companies	-7
	29

#### Specification of acquired assets

	Book value	Fair value
Intangible assets		11
Property, plant and equipment	13	13
Inventories	5	5
Receivables	16	16
Cash and cash equivalents	7	7
Liabilities	-27	-27
Deferred tax liabilities	-3	-7
<b>Total</b>	11	18

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.

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

Long-term construction contracts		
MEUR	2007	2006
Net sales in the income statement	372	203

Long-term construction projects in progress		
MEUR	2007	2006
Cumulative net sales	727	572
Cumulative result	82	-5
Advances received at 31 December	524	490
Trade receivables from the revenue recognition netted with the advances received at 31 December	74	9

Long-term operating and maintenance agreements		
MEUR	2007	2006
Net sales in the income statement	171	158

### 4. Other income

MEUR	2007	2006
Rental income	1	1
Profit on sales of fixed assets	7	7
Government grants	6	6
Sale of by-products	3	3
Other income	4	7
<b>Total</b>	<b>21</b>	<b>25</b>

### 5. Material and services

MEUR	2007	2006
<b>Raw material and consumables</b>		
Purchases during the financial year	-1 369	-1 251
Change in inventories	129	91
External services	-1 009	-796
<b>Total</b>	<b>-2 249</b>	<b>-1 955</b>

### 6. Employee benefit expenses

MEUR	2007	2006
<b>Wages and salaries</b>		
592	511	
<b>Pension costs</b>		
Defined benefit plans	8	8
Other pension and past service costs	43	38
Other compulsory personnel costs	85	72
<b>Total</b>	<b>728</b>	<b>629</b>

Salaries paid to the management are specified in Note 30.

A provision of EUR 4 million (2) for expenses arising from the bonus schemes tied to the price development of the company's B-share has been booked in the income statement. The provision amount is based on the market value of the B-share on 31 December with a two-year lead time.

The 2005 bonus scheme comprises 625,000 bonus rights and the 2006 bonus scheme 650,000 bonus rights. The bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 27.50 for the 2005 bonus scheme and EUR 42.89 for the 2006 bonus scheme taking into account a 50% dividend payout. The bonus can not exceed EUR 6 per bonus right.

	2007	2006
Personnel on average	15 337	13 264

### 7. Depreciation

Depreciation according to plan		
MEUR	2007	2006
Intangible rights	4	5
Other intangible assets	26	23
Buildings and structures	9	7
Machinery and equipment	37	33
Other tangible assets	2	3
<b>Total depreciation according to plan</b>	<b>78</b>	<b>72</b>

### 8. Financial income and expenses

MEUR	2007	2006
<b>Dividend income on available-for-sale investments</b>		
7	8	
<b>Interest income on loans and other receivables</b>		
8	4	
<b>Interest income on financial assets/liabilities at fair value through income statement</b>		
8	6	
<b>Changes in fair values of financial assets/liabilities at fair value through income statement</b>		
1	4	
<b>Exchange rate differences<sup>1</sup></b>		
2	3	
<b>Other financial income</b>		
1	11	
<b>Total financial income</b>	<b>26</b>	<b>36</b>

<b>Interest expenses on financial liabilities measured at amortized cost</b>		
-18	-17	
<b>Interest expenses on financial assets/liabilities at fair value through income statement</b>		
-13	-22	
<b>Other financial expenses</b>		
-2	-4	
<b>Total financial expenses</b>	<b>-34</b>	<b>-43</b>

<b>Total financial income and expenses</b>	<b>-8</b>	<b>-7</b>
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<sup>1</sup> Includes the result from the ineffective portion of cash flow hedges, EUR 1 million.

## 9. Income taxes

MEUR	2007	2006
Income taxes on operations		
for the financial year	-88	-107
for prior years	5	-2
Change in deferred taxes	-23	14
<b>Total</b>	<b>-106</b>	<b>-94</b>
Profit before taxes	372	447
Tax calculated at the domestic corporate tax rate (26%)	-97	-116
Effect of changed tax rates	2	-2
Effect of different tax rates in foreign subsidiaries	-1	-4
Effect of income not subject to tax and non-deductible expenses	-5	-5
Utilization of previously unrecognized tax losses carried forward	3	34
Unrecognized taxes on losses carried forward	-5	-6
Other taxes	-8	-5
Effect of share of profit of associates		18
Other temporary differences	-2	-6
Income taxes for prior years	5	-2
<b>Tax charge in the consolidated income statement</b>	<b>-106</b>	<b>-94</b>

## 10. Earnings per share

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

MEUR	2007	2006
Profit attributable to equity holders of the parent company (basic/diluted)	262	351
Thousands of shares		
Weighted average number of shares outstanding	95 751	94 429
Effect of issued share options	206	332
Diluted weighted average number of shares outstanding	95 957	94 760
Basic earnings per share (EUR)	2.74	3.72
Dilutes earnings per share (EUR)	2.73	3.71

## 11. Intangible assets

### Impairment testing of goodwill

Goodwill from acquisitions is allocated to the Group's cash-generating units (CGUs) being the lowest level of assets for which there are separately identifiable cash flows. Currently Wärtsilä identifies 3 separate independent cash inflow CGUs to which goodwill can directly be linked as per the below table. In addition the goodwill allocated for companies acquired during the current period has been subject for impairment testing separately. These companies have all been integrated into the Power Business operations and will not constitute a separately identifiable CGU in the future.

### Cash-Generating Units (CGU)

MEUR	Goodwill	
	2007	2006
Automation	36	37
Ship design	4	
Propulsion*		259
Acquired companies during the period	33	
Power Businesses, other	372	121
<b>Total</b>	<b>445</b>	<b>417</b>

\*The Propulsion companies have been integrated into the Power Business operations during 2007 and hence do not constitute a separately identifiable CGU on 31st of December 2007.

The recoverable amounts from the CGUs are determined based on value-in-use calculations. The calculations are on a discounted cash flow method basis, derived from 5-year cash flow projections from management approved strategic plans. The estimated performances of the CGUs are based on utilization of the existing property, plant and equipment in their current condition with normal maintenance capital expenditure and excluding any potential future acquisitions. Cash flows beyond the five-year period are calculated using the terminal value method. The terminal growth rate used in projections is based on management's assessment on conservative long term growth. The terminal growth rate used varies from 0% to 2% based on country and business characteristics.

The key driver for the valuation of the CGU Power Business is the growth in the global economy and in particular the development of the global power market, the global shipbuilding industry



and demand for related services. The projected development of total costs in the market affects the profitability, whereas any single cost item has not been seen as having material impact. The valuation drivers for the new equipment sales are the growth in the global economy whereas for after sales the drivers are also the demand for related services and projected development in labour cost.

The used 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 9.2% (2006: 8.0%) in the calculations.

As a result of the impairment test no impairment loss was recognized for the period ended December 31, 2006 and 2007 respectively.

### Sensitivity analysis

Sensitivity analyses have been carried out for the valuation of each Cash Generating Unit 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% to 15%
- Lowering the terminal growth rate by 1% to 50%
- Lowering the EBIT profitability by 1% to 10%
- Increasing the WACC by 1% to 15%

According to the performed sensitivity analyses none of the downside scenarios would change the long term key assumptions on which Wärtsilä's recoverable amounts are based and would not cause their respective values to fall short of their carrying amounts at December 31, 2007. As a result of performed impairment tests, there is no need for write-downs of the goodwill in a particular cash generating unit.

In management's opinion changes in the basic assumptions provided in these theoretical downside scenarios shall not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total 2007
Acquisition cost at 1 January 2007	62	9	262	417	750
Changes in exchange rates				-6	-6
Acquisitions			13	33	47
Additions	25	8	1		33
Intra-balance sheet transfer	-19	-3	22		
Acquisition cost at 31 December 2007	68	14	297	445	824
Accumulated depreciation at 1 January 2007					-147
Depreciation during the financial year				-26	-30
Intra-balance sheet transfer				-2	
Accumulated depreciation at 31 December 2007				-146	-178
<b>Book value at 31 December 2007</b>	<b>37</b>	<b>14</b>	<b>151</b>	<b>445</b>	<b>646</b>

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total 2006
Acquisition cost at 1 January 2006	53	9	223	366	649
Changes in exchange rates				-4	-4
Acquisitions	4		10	55	69
Additions	6	9	7		22
Disposals			-1		-1
Intra-balance sheet transfer		-8	23		14
Acquisition cost at 31 December 2006	62	9	262	417	750
Accumulated depreciation at 1 January 2006					-108
Depreciation during the financial year				-23	-28
Intra-balance sheet transfer				-12	-12
Accumulated depreciation at 31 December 2006				-118	-147
<b>Book value at 31 December 2006</b>	<b>33</b>	<b>9</b>	<b>144</b>	<b>417</b>	<b>602</b>

## 12. Property, plant and equipment

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress & advances paid	Other tangible assets	Investment properties	Total 2007
Acquisition cost at 1 January 2007	15	174	478	32	68	15	782
Changes in exchange rates		1	3		1		5
Companies sold			-4		-14		-17
Additions		27	54	48	3		133
Disposals	-1	-5	-9		-1	-2	-19
Intra-balance sheet transfer		7	6	-16	3		
Acquisition cost at 31 December 2007	14	203	529	64	60	13	884
Accumulated depreciation at 1 January 2007		-96	-324		-46		-467
Changes in exchange rates			-2				-2
Accumulated depreciation on disposals		2	8				10
Depreciation during the financial year		-9	-37		-2		-48
Intra-balance sheet transfer		-1			1		
Accumulated depreciation at 31 December 2007		-103	-355		-47		-506
<b>Book value at 31 December 2007</b>	14	100	174	64	13	13	377
Value of finance-leased assets included in book value			11		1		12

Investment properties include land areas not used by the Group. Their estimated market value is around EUR 35 million. During the period, investment properties were sold totalling EUR 12 million (9) generating a profit of EUR 6 million (6).

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	18	155	443	13	73	17	718
Changes in exchange rates		-2	-7		-1		-11
Acquisitions		5	13				18
Additions		8	46	28	2		84
Disposals	-1	-3	-14	-1	-1	-2	-22
Intra-balance sheet transfer	-3	11	-2	-8	-5		-6
Acquisition cost at 31 December 2006	15	174	478	32	68	15	782
Accumulated depreciation at 1 January 2006		-86	-311		-47		-445
Changes in exchange rates		1	3		1		5
Accumulated depreciation on disposals		2	12		1		15
Depreciation during the financial year		-7	-33		-3		-44
Intra-balance sheet transfer		-6	5		3		1
Accumulated depreciation at 31 December 2006		-96	-324		-46		-467
<b>Book value at 31 December 2006</b>	15	78	154	32	22	15	315
Value of finance-leased assets included in book value		1	9		1		10

During the year investments in the factories in Vaasa, Finland and Trieste, Italy amounted to EUR 33 million, and Wärtsilä had commitments related to the investment programmes amounting to EUR 2 million at the end of the year. The investment in the enlargement of propulsion equipment manufacturing in the Netherlands and China amounted to EUR 17 million during the review period, and Wärtsilä had commitments related to the enlargements amounting to EUR 7 million at the end of the year. In addition, Wärtsilä's commitment related to the investment programme in the Korean joint venture Wärtsilä Hyundai Engine Company Ltd. amounted to EUR 12 million at the end of the year.

### 13. Investments in associated companies

MEUR	2007	2006
Book value at 1 January	9	108
Acquired shares	12	
Share of results	1	68
Dividends	-1	
Selling / decrease of shares	-5	-168
<b>Book value at 31 December</b>	<b>16</b>	<b>9</b>

Summary financial information on associates (100%):

#### 2007

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Oy Ovako Ab <sup>1</sup>	Finland	26.5	2		2		
Qingdao Qiyao Wärtsilä MHI							
Lindhan Marine Diesel Co Ltd.	China	27.0	58	21	37		
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	14	7	7	35	2
Wärtsilä Land and Sea Academy Inc.	Philippines	40.0	1			1	
AWEK Industrial Patents Ltd. Oy	Finland	25.0	1			2	
Repropel Sociedad de reparacao de helices	Portugal	50.0	1		1	1	
WD Power Investment Ky	Finland	21.7	3		3		

#### 2006

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Oy Ovako Ab	Finland	26.5	666 <sup>2</sup>	6	660 <sup>2</sup>	1 200	282
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	16	10	6	31	2
AWEK Industrial Patents Ltd. Oy	Finland	25.0	1			2	
Repropel Sociedad de reparacao de helices	Portugal	50.0	1	1	0		
WD Power Investment Ky	Finland	21.7	6		6		

<sup>1</sup> Oy Ovako Ab is under liquidation.

<sup>2</sup> At the end of 2006, the Assets and Equity of Oy Ovako Ab include the pre-liquidation payment paid to owners as an advance.

In July 2006, the three owners of Oy Ovako Ab – Rautaruukki, SKF and Wärtsilä – decided to sell the operating companies to a company owned by Hombergh 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 175 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 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.

Ovako's impact on the consolidated financial statements in 2006:

MEUR	
<b>Impact on the consolidated income statement 2006</b>	
Share of profit of associates	
Operational result	18
Liquidation proceeds	49
	<b>67</b>

#### Impact on the consolidated balance sheet at 31 December 2006

Shares in associated companies	6
Interest-bearing receivables	29
Non-interest-bearing receivables	4
Received pre-liquidation payment	136
	<b>175</b>



## 14. 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).

During the reporting period, Wärtsilä and Hyundai Heavy Industries Co Ltd. set up a joint venture, Wärtsilä Hyundai Engine Co Ltd., which will start to manufacture dual-fuel engines for LNG carriers. The factory is under construction. Wärtsilä's ownership of the company is 50%.

Summary financial information on joint ventures (100%):

2007 MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	25	15	10	23	
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	37	5	32		

2006 MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	11	2	9		

## 15. 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	2007	2006
Book value at 1 January	183	284
Changes in exchange rates	-2	-2
Disposals	-2	-25
Fair value adjustment	-25	34
<b>Book value at 31 December</b>	<b>155</b>	<b>183</b>

Selling profit in the income statement

124

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

MEUR	2007		2006	
	Acquisition cost	Market value	Acquisition cost	Market value
<b>Shares</b>				
Sampo plc	4	34	4	39
Assa Abloy AB	18	100	18	120
Listed shares	22	134	22	158
Other shares	21	21	24	24
<b>Total shares</b>	<b>43</b>	<b>155</b>	<b>46</b>	<b>183</b>

## 16. Inventories

MEUR	2007	2006
Materials and consumables	545	416
Work in progress	399	316
Finished goods	51	74
Advances paid	86	31
<b>Total</b>	<b>1 081</b>	<b>837</b>

## 17. Financial assets and liabilities by measurement category

2007	Financial assets/ liabilities at fair value through income statement	Loans and receivables	Available- for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value
<b>MEUR</b>						
<b>Non-current financial assets</b>						
Investments available for sale			155		155	155
Interest-bearing investments		12			12	12
Other receivables		7			7	7
<b>Current financial assets</b>						
Interest-bearing receivables		2			2	2
Trade receivables		874			874	874
Other receivables	26	20			46	46
Cash and cash equivalents	296				296	296
<b>Carrying amount by category</b>	<b>322</b>	<b>915</b>	<b>155</b>		<b>1 392</b>	<b>1 392</b>
<b>Non-current financial liabilities</b>						
Interest-bearing debt				245	245	245
Other liabilities				3	3	3
<b>Current financial liabilities</b>						
Interest-bearing debt				38	38	38
Trade payables				348	348	348
Other liabilities	2			21	23	23
<b>Carrying amount by category</b>	<b>2</b>			<b>655</b>	<b>657</b>	<b>657</b>
<b>2006</b>						
<b>MEUR</b>						
<b>Non-current financial assets</b>						
Investments available for sale			183		183	183
Interest-bearing investments		35			35	35
Other receivables		8			8	8
<b>Current financial assets</b>						
Interest-bearing receivables		1			1	1
Trade receivables		772			772	772
Other receivables	9	18			27	27
Cash and cash equivalents	179				179	179
<b>Carrying amount by category</b>	<b>188</b>	<b>834</b>	<b>183</b>		<b>1 205</b>	<b>1 205</b>
<b>Non-current financial liabilities</b>						
Interest-bearing debt				205	205	205
Other liabilities				1	1	1
<b>Current financial liabilities</b>						
Interest-bearing debt				66	66	66
Trade payables				271	271	271
Other liabilities				13	13	13
<b>Carrying amount by category</b>				<b>556</b>	<b>556</b>	<b>556</b>

## 18. Other receivables

MEUR	2007	2006
Interest receivables	1	1
Other financial items	29	17
Insurance receivables	2	3
Rental receivables	4	3
Project accruals	11	6
Other accruals	37	37
Loan receivables	16	9
VAT receivables	57	40
Other receivables	51	42
<b>Total</b>	<b>208</b>	<b>159</b>
Non-current	7	8
Current	201	151

## 19. Cash and cash equivalents

MEUR	2007	2006
Cash and bank balances	274	164
Financial assets	23	15
<b>Total</b>	<b>296</b>	<b>179</b>

## 20. Deferred taxes

MEUR	2007	2006
<b>Deferred tax assets</b>		
Tax loss carry-forwards	24	43
Pension obligations	3	3
Provisions	15	9
Eliminating the intra group profit in stock	14	12
Other temporary differences	15	19
<b>Total</b>	<b>70</b>	<b>87</b>
<b>Deferred tax liabilities</b>		
Intangible assets and property, plant and equipment	16	10
Fair value adjustments	42	45
Other temporary differences	23	19
<b>Total</b>	<b>81</b>	<b>74</b>
<b>Net deferred tax liabilities/assets</b>	<b>-11</b>	<b>13</b>

At 31 December 2007 the Group had temporary differences on which no deferred tax receivables were booked totalling EUR 40 million (45), as it is uncertain if they will be realized. Most of them were related to cumulative losses.

#### Change in deferred taxes during 2007

MEUR	1 January 2007	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions	31 December 2007
<b>Deferred tax assets</b>						
Tax loss carry-forwards	43	-19				24
Pension obligations	3					3
Provisions	9	5				15
Eliminating the intra group profit in stock	12	2				14
Other temporary differences	19	-4				15
<b>Total</b>	<b>87</b>	<b>-16</b>		<b>-1</b>		<b>70</b>
<b>Deferred tax liabilities</b>						
Intangible assets and property, plant and equipment	10	3			3	16
Fair value adjustments	45		-3			42
Other temporary differences	19	4				23
<b>Total</b>	<b>74</b>	<b>7</b>	<b>-3</b>		<b>3</b>	<b>81</b>
<b>Net deferred tax assets / liabilities</b>	<b>13</b>	<b>-23</b>	<b>3</b>	<b>-1</b>	<b>-3</b>	<b>-11</b>

#### Change in deferred taxes during 2006

MEUR	1 January 2006	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions	31 December 2006
<b>Deferred tax assets</b>						
Tax loss carry-forwards	41	3				43
Pension obligations	5	-2				3
Provisions		9				9
Fair value adjustments						
Group eliminations	11	1				12
Other temporary differences	21	-2		-1		19
<b>Total</b>	<b>78</b>	<b>10</b>		<b>-1</b>		<b>87</b>
<b>Deferred tax liabilities</b>						
Intangible assets and property, plant and equipment	7	-4			7	10
Fair value adjustments	56	-5	-7			45
Other temporary differences	16	4				19
<b>Total</b>	<b>79</b>	<b>-5</b>	<b>-7</b>		<b>7</b>	<b>74</b>
<b>Net deferred tax liabilities / assets</b>	<b>-1</b>	<b>14</b>	<b>7</b>	<b>-1</b>	<b>-7</b>	<b>13</b>

## 21. Pension obligations

MEUR	2007	2006
Recognised net liability for defined benefit obligations	20	23
Long-service leave and other past service obligations	25	30
<b>Total past service obligations at 31 December</b>	<b>45</b>	<b>53</b>

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. During the year one defined benefit pension plan in Holland was fully waived to a branch pension plan, which is a multiemployer plan and qualifies as a defined contribution plan. The waiver reduced the reported pension obligation by EUR 87 million, the plan assets by EUR 82 million and unrecognised actuarial loss by EUR 5 million.

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

	2007	2006
<b>Movement in defined benefit obligations</b>		
Defined benefit obligations at 1 January	307	293
Exchange rate differences	-6	-4
Current service costs	9	9
Interest cost	8	8
Benefits paid	-12	-11
Changes in actuarial gains and losses	-5	10
Impact of acquired and disposed companies and other changes	-89	3
<b>Defined benefit obligations at 31 December</b>	<b>212</b>	<b>307</b>

	2007	2006
<b>Movement in plan assets</b>		
Fair value of plan assets at 1 January	295	292
Exchange rate differences	-5	-5
Contribution paid to the fund	12	10
Benefits paid by the plan	-12	-10
Expected return on plan assets	9	8
Actuarial gains and losses	-2	-1
Impact of acquired and disposed companies and other changes	-94	
<b>Fair value of plan assets at 31 December</b>	<b>202</b>	<b>295</b>
Unrecognised assets	-5	-16
<b>Recognised fair value of plan assets at 31 December</b>	<b>197</b>	<b>279</b>

Unrecognized actuarial gain loss	2007	2006	
Unrecognised actuarial gain loss at beginning of year	-5	6	
Exchange rate differences			
Actuarial gain loss for year—obligation	8	-10	
Actuarial gain loss for year—plan assets	-2	-1	
Impact of acquired / disposed companies and other changes	5		
<b>Total</b>	<b>5</b>	<b>-5</b>	
Actuarial gain loss recognised			
<b>Unrecognised actuarial gain loss at the year end</b>	<b>5</b>	<b>-5</b>	
<b>Recognised net liability for defined benefit obligations</b>	<b>20</b>	<b>23</b>	
<b>Expenses recognised in income statement</b>			
Current service costs	9	9	
Interest on obligation	8	8	
Expected return on plan assets	-9	-8	
Gains and losses on curtailments and settlements	-1		
<b>Defined benefit expenses</b>	<b>8</b>	<b>8</b>	
<b>Actual return on plan assets</b>	<b>6</b>	<b>7</b>	
<b>Historical information</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Present value of the defined benefit obligation	212	307	293
Fair value of plan assets	-202	-295	-292
Deficit in the plan	9	12	1
<b>Actuarial assumptions 2007</b>	<b>Europe</b>	<b>Other</b>	
Discount rate (%)	3.0–5.9	2.0–10.0	
Expected return on plan assets (%)	4.0–7.8	2.5–10.0	
Future salary increases (%)	1.5–4.4	1.0–9.0	
<b>Actuarial assumptions 2006</b>	<b>Europe</b>	<b>Other</b>	
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	

## 22. Share capital of the parent company

Share capital	A-shares	Number of B-shares	Number of shares, total	Number of capital	Share premium	Share issue Total
1 January 2006	23 579 587	70 527 529	94 107 116	329	44	373
Bonds with options subscribed		1 447 236	1 447 236	5	14	19
31 December 2006	23 579 587	71 974 765	95 554 352	334	58	392
Bonds with options subscribed		415 209	415 209	1	3	4
<b>31 December 2007</b>	<b>23 579 587</b>	<b>72 389 974</b>	<b>95 969 561</b>	<b>336</b>	<b>61</b>	<b>397</b>

## 23. Option rights

Changes in option rights 2007	Option scheme 2001		Option scheme 2002		Total
	Option rights	Shares based on option rights	Option rights	Shares based on option rights	
1 January 2007	127 484	191 226	170 026	255 039	446 265
Shares subscribed with option rights	127 482	191 223	149 324	223 986	415 209
<b>31 December 2007</b>	<b>2</b>	<b>3</b>	<b>20 702</b>	<b>31 053</b>	<b>31 056</b>

### 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 ended on 31 March 2007. The extra dividends distributed after 25 May 2001 and before the subscription of shares were deducted from the subscription price. The share option scheme covered 78 individuals. Trading in the 2001 options began on the Helsinki Stock Exchange on 7 March 2005.

The AGM on 12 March 2002 approved another 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.



## 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 2006	-13	-1	212	198
Deferred tax liabilities	3		-55	-51
Fair value and other reserves at 1 January 2006	-9	-1	157	147
Transferred to income statement, net of taxes	3		-81	-77
Fair value adjustments	45		34	79
Deferred tax liabilities	-12		-9	-20
Fair value and other reserves at 31 December 2006	27	-1	101	128
Transferred to income statement, net of taxes	-13			-12
Fair value adjustments	36		-24	12
Deferred tax liabilities	-8		6	-1
<b>Fair value and other reserves at 31 December 2007</b>	<b>44</b>	<b>0</b>	<b>84</b>	<b>127</b>

## 25. Provisions

### 2007

MEUR	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total 2007
Provisions at 1 January 2007	5	85	16	8	23	136
Changes in exchange rates		-1				-1
Additions	5	63	9		19	95
Used provisions	-2	-40	-11	-2	-9	-63
Released provisions			-1	-1	-1	-4
<b>Provisions at 31 December 2007</b>	<b>7</b>	<b>107</b>	<b>12</b>	<b>6</b>	<b>31</b>	<b>164</b>

Non-current 25  
Current 139

### 2006

MEUR	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total 2006
Provisions at 1 January 2006	5	67	16	17	16	121
Changes in exchange rates		-1				-1
Additions	1	62	20		15	98
Used provisions	-2	-44	-19	-7	-6	-79
Released provisions			-1	-1	-1	-3
<b>Provisions at 31 December 2006</b>	<b>5</b>	<b>85</b>	<b>15</b>	<b>8</b>	<b>23</b>	<b>136</b>

Non-current 20  
Current 117

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. Financial liabilities

### 2007

MEUR	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Loans from financial institutions <sup>1</sup>	28	144	87	259
Finance lease liabilities	3	8	3	13
Other interest-bearing loans	7			7
Non-interest-bearing loans	1	2		3
Trade payables	348			348
Other liabilities	23			23
<b>Total</b>	<b>411</b>	<b>153</b>	<b>90</b>	<b>654</b>

<sup>1</sup> Estimated interest expenses 11 26 11 48

### 2006

MEUR	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Loans from financial institutions	30	144	49	223
Finance lease liabilities	2	7	2	11
Other interest-bearing loans	3	3		6
Non-interest-bearing loans	1			1
Trade payables	271			271
Other liabilities	13			13
<b>Total</b>	<b>320</b>	<b>154</b>	<b>51</b>	<b>525</b>

Fair values of financial liabilities are presented in Note 17. Financial assets and liabilities by measurement category.

## 27. Other liabilities

MEUR	2007	2006
Project costs	360	307
Personnel costs	113	95
Interest and other financial items	23	13
Other accruals	61	52
VAT liabilities	3	2
Other liabilities	50	35
<b>Total</b>	<b>608</b>	<b>504</b>
Non-current	3	1
Current	605	503

## 28. Financial instruments

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

MEUR	2007	2006
<b>Nominal values of derivative financial instruments</b>		
Interest rate swaps	140	140
Currency forwards		
Transaction risk	1 005	832
Translation risk	279	199
Currency options, written		8
Currency options, purchased	34	22
<b>Total</b>	<b>1 458</b>	<b>1 201</b>

### Fair values of derivative financial instruments

Interest rate swaps	2	3
Currency forwards		
Transaction risk	21	6
Translation risk	1	
<b>Total</b>	<b>24</b>	<b>9</b>

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

### Currency distribution of currency forwards and currency options

MEUR	Transaction risk	Translation risk
Currency forwards		
USD	607	76
NOK	216	38
CHF	114	9
SGD	27	38
Others	39	118
	1 005	279
Currency options		
USD	34	
<b>Total</b>	<b>1 039</b>	<b>279</b>

## 29. Collateral, contingent liabilities and other commitments

MEUR	Balance sheet debt	2007 Collateral	Balance sheet debt	2006 Collateral
<b>Mortgages given as collateral for liabilities and commitments</b>				
Loans from credit institutions	3	3	3	4
Pension loans	3	5	4	6
Other commitments	5	5	3	10
<b>Total</b>	<b>11</b>	<b>13</b>	<b>10</b>	<b>20</b>
<b>Chattel mortgages given as collateral for liabilities and commitments</b>				
Loans from credit institutions		3	3	3
Other commitments	4	5	6	18
<b>Total</b>	<b>4</b>	<b>8</b>	<b>9</b>	<b>21</b>
<b>MEUR</b>			<b>2007</b>	<b>2006</b>
Guarantees and contingent liabilities on behalf of Group companies			479	317
<b>Nominal amounts of rents according to leasing contracts</b>				
Payable within one year			16	12
Payable later			53	38
<b>Total</b>			<b>69</b>	<b>50</b>

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

#### Salaries and bonuses paid to management

In thousands of euro	2007	2006
President and CEO		
Salaries and other short-term benefits	614	493
Bonuses	577	403
	<b>1 191</b>	<b>897</b>
Other members of the Board of Management		
Salaries and other short-term benefits	1 275	1 355
Bonuses	1 512	1 023
	<b>2 788</b>	<b>2 378</b>

#### Board of Directors, 31 December 2007

Antti Lagerroos, chairman	119	74
Göran J. Ehrnrooth, deputy chairman	82	50
Maarit Aarni-Sirviö, member	55	-
Heikki Allonen, member	58	36
Bertel Langenskiöld member	56	35
Matti Vuoria, member	58	35
Board of Directors, until 14 March 2007		
Risto Hautamäki, member	2	35
Jaakko Iloniemi, member	3	35
	<b>433</b>	<b>301</b>

**Salaries and bonuses paid to management, total**      **4 412**      **3 575**

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
Shares	111 818	72 477

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.

### 31. Exchange rates

#### Business transactions with the associated companies

MEUR	2007	2006
Sales to the associates in the income statement	23	19
Receivables from the associates in the income statement	6	5
Advances paid to the associates in the balance sheet	15	
Payables to the associates in the balance sheet		1

Detailed financial information of the associated companies is presented in Note 13. Investments in associated companies.

	Closing rate 31 Dec. 2007	Closing rate 31 Dec. 2006	Average rate 2007	Average rate 2006
USD	1.47210	1.31700	1.37063	1.25566
GBP	0.73335	0.67150	0.68455	0.68182
SEK	9.44153	9.04037	9.25214	9.25332
NOK	7.95798	8.23798	8.01828	8.04628
DKK	7.45829	7.45601	7.45080	7.45913
CHF	1.65470	1.60690	1.64269	1.57308
JPY	164.93486	156.93660	161.23917	146.06250
SGD	2.11630	2.02020	2.06363	1.99398
INR	57.86367	58.22416	56.58386	57.00799

## 32. Subsidiaries

Company name	Location	Share %	Company name	Location	Share %
Wärtsilä Technology Oy Ab	Finland	100.0	Wärtsilä de Mexico SA	Mexico	100.0
Wärtsilä Finland 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 Development & Financial Services Oy	Finland	100.0	Wärtsilä Lanka	Sri Lanka	100.0
Wärtsilä Nederland B.V.	The Netherlands	100.0	Wärtsilä Guatemala S.A.	Guatemala	100.0
Wärtsilä Nederland Kruiningen B.V.	The Netherlands	100.0	Wärtsilä Latin America Ltd.	Bermuda	100.0
Wärtsilä Automation Nederland B.V.	The Netherlands	100.0	Wärtsilä Chile Ltda.	Chile	100.0
DTS-Zwolle B.V.	The Netherlands	100.0	Wärtsilä Ecuador S.A.	Ecuador	100.0
Wärtsilä Italia S.p.A.	Italy	100.0	Wärtsilä do Brasil Ltda.	Brazil	100.0
Wärtsilä Switzerland Ltd.	Switzerland	100.0	Wärtsilä Colombia S.A.	Colombia	100.0
Wärtsilä France S.A.S.	France	100.0	Wärtsilä Peru S.A.	Peru	100.0
Wärtsilä Defence S.A.S.	France	100.0	Wärtsilä Argentina S.A.	Argentina	100.0
Whesoe S.A.	France	100.0	Wärtsilä Venezuela, C.A.	Venezuela	100.0
Wärtsilä Propulsion Netherlands B.V.	The Netherlands	100.0	Wärtsilä Panama, S.A.	Panama	100.0
Wärtsilä-CME Zhenjiang Propeller Co. Ltd	China	55.0	Wärtsilä Singapore Pte Ltd.	Singapore	100.0
Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	100.0	Total Automation Pte Ltd.	Singapore	100.0
Wärtsilä Danmark A/S	Denmark	100.0	Wärtsilä Vietnam Co Ltd.	Vietnam	100.0
Wärtsilä Sweden AB	Sweden	100.0	Wärtsilä China Ltd.	Hong Kong	100.0
Senitec 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 Ibérica S.A.	Spain	100.0	Wärtsilä Korea Ltd.	South Korea	100.0
Wärtsilä Propulsion Spain S.A.	Spain	100.0	Wärtsilä Taiwan Ltd.	Taiwan	96.7
Wärtsilä Portugal Lda.	Portugal	100.0	Wärtsilä Philippines Inc.	Philippines	100.0
Wärtsilä Deutschland GmbH	Germany	100.0	PT. Wärtsilä Indonesia	Indonesia	100.0
SCHIFFKO GmbH	Germany	100.0	Wärtsilä Australia Pty Ltd.	Australia	100.0
Wärtsilä BLRT Estonia Oü	Estonia	51.7	Wärtsilä India Ltd.	India	98.2
Wärtsilä BLRT Services Klaipeda UAB	Lithuania	51.0	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0
Deep Sea Seals Ltd.	Great Britain	100.0	Wärtsilä Bangladesh Ltd.	Bangladesh	100.0
Wärtsilä UK Ltd.	Great Britain	100.0	Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	60.0
Whesoe Total Automation Ltd.	Great Britain	100.0	Wärtsilä Gulf FZE	United Arab Emirates	100.0
McCall Propellers Ltd.	Great Britain	100.0	Wärtsilä Ships Repairing & Maintenance LLC	United Arab Emirates	100.0
Electrical Power Engineering 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 Central Africa S.A.	Cameroon	100.0
Wärtsilä-Enpa A.S.	Turkey	51.0	Wärtsilä Japan Company 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 Vostok LLC	Russia	100.0
Wärtsilä North America, Inc.	USA	100.0	Wärtsilä Azerbaijan LLC	Azerbaijan	100.0
Wärtsilä Development & Financial Services Inc.	USA	100.0	Vulcan Insurance Ltd.	Great Britain	100.0
Wärtsilä Operations, Inc.	USA	100.0			
Wärtsilä Canada Inc.	Canada	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.



### 33. 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. The estimated future commercial exposures are evaluated by the Businesses and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS is applied to most of the hedges of these exposures. The hedges cover such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its balance sheet position, which includes receivables and payables denominated in foreign currencies. The Group does not expect significant exchange rate losses from any changes in foreign exchange rates in 2008. Some 69% of sales and 65% of operating costs in 2007 were denominated in euros. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: USD, GBP, JPY and KRW.

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

Since Wärtsilä has subsidiaries outside the euro zone, the Group's shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2007 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 359 million, of which EUR 271 million was hedged. The ineffective portion of the equity hedges was not significant.

IFRS hedge accounting has been applied to EUR 832 million currency forwards. In 2007 EUR 36 million fair value adjustments related to cash flow hedges were booked in equity. EUR 17 mil-

#### Currency distribution 2007

	Net sales	Operating cost
Euro zone	69%	65%
USD	13%	8%
NOK	3%	6%
CHF	2%	4%
Other EU	3%	4%
SGD	2%	2%
Other	9%	10%
	100%	100%

lion of the fair value adjustments were transferred from equity to the income statement as net sales or operating expenses during 2007. The result from ineffective portion of the cash flow hedges, EUR 1 million, has been booked in financial items.

#### 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 2007 totalled EUR 283 (270) million. The average interest rate was 4.9% (3.8%) and the average re-fixing time 7 (10) months. Additional information on debt is provided in Notes 17 and 26. At the end of 2007 a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 3 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 2007 the floating rate portion of total loans was 39% after adjustment for interest rate derivatives. A one percentage point change in the interest level would cause a EUR 1 million change in the following year's interest expenses of the debt portfolio, including 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 375 million.
- Finnish Commercial Paper programmes totalling EUR 600 million.

The average maturity of the long-term loans is 49 months and the average maturity of the confirmed credit lines is 29 months.

Wärtsilä Group's liquidity is good. Wärtsilä had cash and cash equivalents totalling EUR 296 million at the year end as well as EUR 375 million 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 million at the end of 2007. No losses were recorded on suppliers' credits.

Wärtsilä has a Vendor Note receivable and some other minor receivables totalling EUR 13 million, maturing within 5 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 Group Treasury) 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 Group Treasury and Wärtsilä does not expect any defaults from the placements.

### Aging of trade receivables

MEUR	2007		2006	
	Trade receivables, gross	Impairment on overdue	Trade receivables, gross	Impairment on overdue
Not past due	520		475	
Past due 1-30 days	148		101	
Past due 31-180 days	149	2	130	1
Past due 181-360 days	31	3	38	3
More than 1 year	44	13	45	13
<b>Total</b>	<b>892</b>	<b>18</b>	<b>788</b>	<b>16</b>

In 2007, EUR 11 million credit loss has been booked in the consolidated income statement.

### Equity price risk

Wärtsilä has investments in publicly quoted shares (Note 15). The market value of these shares at the end of 2007 was EUR 134 million.

Wärtsilä also has equity investments totalling EUR 16 million in power plants companies, most of which are located in developing countries and performing well according to expectations.

### Capital risk management

Wärtsilä's policy is to secure a strong capital base to keep the confidence of investors and creditors and for the future development of the business. The capital is defined as total equity including minority interest and net interest-bearing debt. The target for Wärtsilä is to have a solvency ratio of 35-40% and to pay a dividend equivalent to 50% of operational earnings per share.

MEUR	31 Dec. 07	31 Dec. 06
Balance sheet total	3 749	3 188
Advances received	-860	-572
	<b>2 889</b>	2 616
Total shareholders' equity	1 325	1 230
Solvency ratio %	45.9%	47.0%
<b>In the capital management Wärtsilä also follows the gearing development:</b>		
Interest-bearing liabilities, non-current	245	205
Interest-bearing liabilities, current	38	66
Cash and cash equivalents	-296	-179
	-13	91
Loan receivables	-14	-36
<b>Net interest-bearing loan capital</b>	<b>-27</b>	55
Gearing	-0.01	0.07

# Parent Company Financial Statements

## Parent Company Income Statement (FAS)

MEUR	Note	2007	2006
<b>Net sales</b>	1	3	3
Other operating income	2	73	296
Personnel expenses	3	-32	-27
Depreciation and write-downs	4	-11	-9
Other operating expenses		-82	-76
<b>Operating result</b>		<b>-49</b>	<b>186</b>
Financial income and expenses	5		
Income from financial assets		40	163
Interest income and other financial income		51	41
Exchange gains and losses		20	12
Interest expenses and other financial expenses		-33	-23
		<b>78</b>	<b>193</b>
<b>Result before extraordinary items</b>		<b>29</b>	<b>380</b>
Extraordinary items	6		
Group contribution		169	102
<b>Result before appropriations and taxes</b>		<b>198</b>	<b>482</b>
Appropriations			
Change in depreciation difference		-1	-3
<b>Result before taxes</b>		<b>197</b>	<b>479</b>
<b>Income taxes</b>	7	<b>-38</b>	<b>-61</b>
<b>Result for the financial period</b>		<b>159</b>	<b>419</b>

## Parent Company Balance Sheet (FAS)

MEUR	Note	31 Dec. 2007	31 Dec. 2006
<b>ASSETS</b>			
<b>Fixed assets</b>	8		
<b>Intangible assets</b>			
Other long-term expenditure		35	33
Construction in progress		11	6
		<b>46</b>	<b>39</b>
<b>Tangible assets</b>			
Land and water		7	8
Buildings and structures		1	4
Machinery and equipment		1	1
Other tangible assets		1	1
Construction in progress		3	2
		<b>13</b>	<b>16</b>
<b>Financial assets</b>			
Shares in Group companies		450	450
Long-term loan receivables from Group companies		1	2
Receivables from associated companies		1	1
Other shares and securities		20	20
		<b>472</b>	<b>474</b>
<b>Fixed assets and other long-term financial assets</b>		<b>531</b>	<b>528</b>

MEUR	Note	31 Dec. 2007	31 Dec. 2006
<b>Long-term receivables</b>	9		
Receivables from Group companies		38	36
Loan receivables		12	36
		<b>50</b>	<b>72</b>
<b>Short-term receivables</b>	10		
Receivables from Group companies		1 206	1 044
Loan receivables		22	8
Other receivables		5	4
Prepaid expenses and accrued income	11	29	18
		<b>1 263</b>	<b>1 074</b>
<b>Cash and bank balances</b>		<b>180</b>	<b>79</b>
<b>Total current assets</b>		<b>1 493</b>	<b>1 225</b>
<b>Assets</b>		<b>2 024</b>	<b>1 753</b>

#### Parent Company Balance Sheet (FAS)

MEUR	Note	31 Dec. 2007	31 Dec. 2006
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	12		
Share capital		336	334
Share premium reserve		61	58
Retained earnings		418	167
Result for the financial year		159	419
Total shareholders' equity		<b>974</b>	<b>978</b>
<b>Accumulated appropriations</b>			
Depreciation difference		7	5
<b>Provisions</b>	13	<b>3</b>	<b>3</b>
<b>Liabilities</b>	14		
<b>Long-term</b>			
Loans from financial institutions		210	162
Loans from pension institutions		4	13
		<b>214</b>	<b>174</b>
<b>Current</b>	16		
Loans from financial institutions		7	26
Loans from pension institutions		8	16
Trade payables		5	3
Liabilities to Group companies		773	469
Other current liabilities		5	1
Accrued expenses and deferred income	15	29	77
		<b>827</b>	<b>593</b>
<b>Total liabilities</b>		<b>1 041</b>	<b>767</b>
<b>Shareholders' equity and liabilities</b>		<b>2 024</b>	<b>1 753</b>



### Parent Company Cash Flow Statement (FAS)

MEUR	2007	2006	MEUR	2007	2006
<b>Cash flow from operating activities:</b>			<b>Cash flow from investing activities:</b>		
Operating result	-49	186	Investments in shares		
Adjustments for:			Investments in other tangible and intangible assets	-22	-15
Depreciation and write-down	11	9	Proceeds from sale of shares	5	317
Selling profit and loss of fixed assets	-10	-239	Loan receivables, increase (-), decrease (+) and other changes	2	1
Cash flow before changes in working capital	-47	-44	Dividends received from investments	6	8
Changes in working capital			<b>Cash flow from investing activities (B)</b>	<b>-10</b>	<b>311</b>
Current assets, non-interest-bearing, increase (-) / decrease (+)	33	-15	<b>Cash flow after investing activities</b>	<b>-111</b>	<b>424</b>
Current liabilities, non-interest-bearing, increase (+) / decrease (-)	11	6	<b>Cash flow from financing activities:</b>		
	-23	-9	Issuance of share capital	4	19
<b>Cash flow from operating activities before financial items and taxes</b>	<b>-70</b>	<b>-53</b>	Loans receivable, increase (-) / decrease (+)	-43	-282
Interest and other financial expenses	-51	-44	Current loans, increase (+) / decrease (-)	284	182
Dividends received from operating activities	34	155	New long-term loans	55	10
Interest and other financial income from operating activities	69	62	Amortization and other changes to long-term loans	-24	-33
Income taxes	-84	-7	Group contributions	102	3
	-32	165	Paid dividends	-167	-283
<b>Cash flow from operating activities (A)</b>	<b>-102</b>	<b>112</b>	<b>Cash flow from financing activities (C)</b>	<b>212</b>	<b>-384</b>
			<b>Change in liquid funds (A+B+C), increase (+) / decrease (-)</b>	<b>101</b>	<b>40</b>
			Liquid funds at beginning of period	79	38
			Liquid funds at end of period	180	79

# 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	2007	2006
Finland	3	3

## 2. Other operating income

MEUR	2007	2006
Rental income	2	2
Profit on sales of fixed assets	10	239
Other operating income	61	55
<b>Total</b>	<b>73</b>	<b>296</b>

## 3. Personnel expenses

MEUR	2007	2006
Wages and salaries	26	21
Pension costs	4	4
Other compulsory personnel costs	2	2
<b>Total</b>	<b>32</b>	<b>27</b>

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

	2	1
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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	<b>298</b>	268
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## 4. Depreciation and write-downs

MEUR	2007	2006
<b>Depreciation according to plan</b>		
Other long-term expenditure	10	8
Buildings and structures	1	
Machinery and equipment	1	1
Total depreciation according to plan	11	9
Total book depreciation	13	12
Depreciation difference	-1	-3
<b>Write-down of fixed assets</b>		
Depreciation difference on 1 January	5	3
Change in the depreciation difference	1	3
Depreciation difference on 31 December	7	5

## 5. Financial income and expenses

MEUR	2007	2006
<b>Dividend income</b>		
from Group companies	34	155
from other companies	6	8
<b>Total</b>	<b>40</b>	<b>163</b>
<b>Other interest income</b>		
from Group companies	45	25
from other companies	4	2
<b>Total</b>	<b>49</b>	<b>27</b>
<b>Other financial income</b>		
from Group companies	12	15
from other companies	8	19
<b>Total</b>	<b>20</b>	<b>35</b>
Exchange gains and losses	20	12
<b>Interest expenses</b>		
to Group companies	-23	-7
to other companies	-12	-12
<b>Total</b>	<b>-35</b>	<b>-19</b>

Other financial expenses		
to Group companies	-1	-1
to other companies	-15	-23
<b>Total</b>	<b>-16</b>	<b>-24</b>

Financial income and expenses, total	<b>78</b>	193
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## 6. Extraordinary income and expenses

MEUR	2007	2006
Group contributions	169	102

## 7. Income taxes

MEUR	2007	2006
<b>Income taxes on operations</b>		
for the financial year	-40	-60
for prior years	2	-1
<b>Total</b>	<b>-38</b>	<b>-61</b>
Income taxes on extraordinary items	44	27

## 8. Fixed assets

### Intangible assets

MEUR	Other long-term expenditure	Construction in progress	Total 2007	Total 2006
<b>Acquisition cost at 1 January</b>	79	6	86	75
Additions	13	5	17	11
<b>Acquisition cost at 31 December</b>	92	11	103	86
Accumulated depreciation at 1 January	-47		-47	-39
Depreciation during the financial year	-10		-10	-8
<b>Accumulated depreciation at 31 December</b>	-57		-57	-47
<b>Book value at 31 December 2007</b>	35	11	46	
<b>Book value at 31 December 2006</b>	33	6		39

### Tangible assets

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress	Other tangible assets	Total 2007	Total 2006
<b>Acquisition cost at 1 January</b>	8	15	12	2	2	38	37
Additions		1		1		3	3
Intra-balance sheet transfer	-2	-4				-6	-2
<b>Acquisition cost at 31 December</b>	7	11	11	3	2	35	38
Accumulated depreciation at 1 January		-11	-11		-1	-23	-22
Accumulated depreciation on disposals and transfers		2				2	
Depreciation during the financial year		-1				-1	-1
<b>Accumulated depreciation at 31 December</b>		-10	-11		-1	-22	-23
<b>Book value at 31 December 2007</b>	7	1	1	3	1	13	
<b>Book value at 31 December 2006</b>	8	4	1	2	1		16

### Shares and securities

MEUR	Shares in Group companies	Receivables from Group companies	Receivables from associated companies	Shares in other companies	Total 2007	Total 2006
<b>Acquisition cost at 1 January</b>	450	2	1	20	473	561
Disposals		-1			-1	-87
<b>Acquisition cost at 31 December</b>	450	1	1	20	472	474
<b>Book value at 31 December 2007</b>	450	1	1	20	472	
<b>Book value at 31 December 2006</b>	450	2	1	20		474



## 9. Specification of long-term receivables

MEUR	2007	2006
<b>Receivables from Group companies</b>		
Long-term investments	1	2
Loan receivables	38	36
<b>Total</b>	<b>39</b>	<b>38</b>
<b>Receivables from associated companies</b>		
Long-term investments	1	1
<b>Total</b>	<b>1</b>	<b>1</b>

## 10. Specification of short-term receivables

MEUR	2007	2006
<b>Receivables from Group companies</b>		
Trade receivables	33	20
Loan receivables	1 162	1 017
Prepaid expenses and accrued income	11	7
<b>Total</b>	<b>1 206</b>	<b>1 044</b>

## 11. Main items in prepaid expenses and accrued income

MEUR	2007	2006
Interest	1	1
Other financial items	27	15
Other items	2	3
<b>Total</b>	<b>29</b>	<b>18</b>

## 12. Shareholders' equity

MEUR	2007	2006
<b>Share capital</b>		
Share capital on 1 January		
Series A	83	83
Series B	252	247
<b>Total</b>	<b>334</b>	<b>329</b>
Subscription based on warrants	1	5
<b>Total</b>	<b>1</b>	<b>5</b>
Share capital on 31 December		
Series A	83	83
Series B	253	252
<b>Total</b>	<b>336</b>	<b>334</b>
<b>Share premium reserve</b>		
Share premium reserve on 1 January	58	44
Issue premium	3	14
Share premium reserve on 31 December	61	58
<b>Retained earnings</b>		
Retained earnings on 1 January	586	452
Ordinary dividend distribution	-167	-141
Extra dividend distribution		-142
Reversal of revaluation		-2
Profit/loss for the year	159	419
Retained earnings on 31 December	577	586
<b>Distributable equity</b>		
Retained earnings on 31 December	577	586
Distributable equity	577	586

## 13. Provisions

MEUR	2007	2006
Other provisions	3	3

## 14. Liabilities

MEUR	2007	2006
<b>Long-term</b>		
Interest-bearing	214	174
<b>Total</b>	<b>214</b>	<b>174</b>
<b>Current</b>		
Non-interest-bearing	63	98
Interest-bearing	764	495
<b>Total</b>	<b>827</b>	<b>593</b>

### Long-term debt with maturity profile

2007				
MEUR	Current < 1 year	1-5 years	Long-term >5 years	Total
Loans from financial institutions	7	135	75	217
Loans from pension institutions	8	4		13
<b>Total</b>	<b>16</b>	<b>139</b>	<b>75</b>	<b>229</b>

2006				
MEUR	Current < 1 year	1-5 years	Long-term >5 years	Total
Loans from financial institutions	7	128	34	169
Loans from pension institutions	16	13		29
<b>Total</b>	<b>23</b>	<b>141</b>	<b>34</b>	<b>198</b>

## 15. Main items in accrued expenses and deferred income

MEUR	2007	2006
Income and other taxes	1	47
Personnel costs	13	9
Interest and other financial items	9	4
Other	5	16
<b>Total</b>	<b>29</b>	<b>77</b>

## 16. Specification of current liabilities

MEUR	2007	2006
<b>Liabilities to Group companies</b>		
Trade payables	2	4
Other current liabilities	745	465
Accrued expenses and deferred income	26	13
<b>Total</b>	<b>773</b>	<b>469</b>

## 17. Collateral, contingent liabilities and other commitments

MEUR	2007		2006	
	Balance sheet debt	Collateral	Balance sheet debt	Collateral
<b>Mortgages given as collateral for liabilities and commitments</b>				
Loans from credit institutions				1
<b>Total</b>				<b>1</b>
<b>Guarantees and contingent liabilities</b>				
on behalf of Group companies	479		356	
<b>Nominal amounts of rents according to leasing contracts</b>				
Payable within one year	3			2
Payable after one year	16			7
<b>Total</b>	<b>19</b>			<b>8</b>

## 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.

# Proposals of the Board

The parent company's distributable funds total 577,382,733.65 euros, which includes 159,240,111.16 euros in net profit for the year. There are 95,969,561 shares with dividend rights. The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

EUR	
A dividend of EUR 2.25 per share be paid, making a total of	215 931 512.25
That the following sum be retained in shareholders' equity	361 451 221.40
Totalling	577 382 733.65

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, 4 February 2008

Antti Lagerroos                      Göran J. Ehrnrooth  
Maarit Aarni-Sirviö                Heikki Allonen  
Bertel Langenskiöld                Matti Vuoria  
Ole Johansson, President and CEO

The parent company's distributable funds total 361,451,221.40 euros taking into consideration the Board's previous proposal for a dividend of 2.25 euros/share made on 4 February 2008. There are 95,969,561 shares with dividend rights.

In addition to the proposal made on 4 February 2008, the Board proposes to the Annual General Meeting that the company's distributable earnings be disposed in the following way:

EUR	
An extra dividend of 2.00 per share be paid, making a total of	191 939 122.00
To be retained in shareholders' equity	169 512 099.40
Totalling	361 451 221.40

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 extra dividend will not put the company's solvency at risk.

Helsinki, 27 February 2008

Board of Directors

# Auditors' Report

## To the shareholders of Wärtsilä Corporation

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Wärtsilä Corporation for the period January 1, 2007 – December 31, 2007. 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 report of the Board of Directors, the parent company's financial statements 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 report of the Board of Directors and the financial statements 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 members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Limited Liability 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.

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.

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

Helsinki, February 4, 2008  
KPMG OY AB

Pekka Pajamo  
Authorized Public Accountant

## Auditors' Statement

To the Annual General Meeting of Wärtsilä Corporation

We have audited the financial statements of Wärtsilä Corporation for the period January 1, 2007 - December 31, 2007 and issued our auditors' report on our audit dated February 4, 2008.

In addition to the proposal made on February 4, 2008 on dividend of 2,25 euros per share, the Board of Directors of Wärtsilä Corporation has decided to propose to the Annual General Meeting an extra dividend of 2,00 euros per share to be paid.

In our opinion the proposal of the Board of Directors on dividend distribution totaling 4,25 euros per share is in compliance with the Limited Liability Companies Act.

Helsinki, February 27, 2008  
KPMG OY AB

Pekka Pajamo  
Authorized Public Accountant



# Quarterly Figures 2006–2007

## Condensed income statement

MEUR	10–12/2007	7–9/2007	4–6/2007	1–3/2007	10–12/2006	7–9/2006	4–6/2006	1–3/2006
<b>Net sales</b>	1 272	933	797	761	986	767	845	592
Other income	10	3	4	4	11	4	8	2
Expenses	-1 114	-821	-710	-683	-880	-696	-764	-541
Depreciation and impairment	-22	-19	-18	-18	-18	-18	-18	-18
<b>Operating result</b>	146	96	73	63	99	56	70	36
Financial income and expenses	-1	-2	-1	-4	-8	1	2	-3
Net income from assets available for sale							124	
Share of profit of associates	1				50	4	8	7
<b>Profit before taxes</b>	145	95	72	60	141	61	204	40
Income taxes	-43	-26	-20	-17	-33	-20	-53	12
<b>Profit for the financial period</b>	103	68	52	42	108	42	151	52
<b>Earnings per share, EUR</b>	1.05	0.71	0.54	0.44	1.13	0.44	1.60	0.55
Order intake	1 594	1 514	1 369	1 157	1 318	1 090	1 190	1 023
Order book, total	6 308	6 162	5 460	4 860	4 439	4 108	3 772	3 415
Personnel, at the end of period	16 336	15 811	15 180	14 754	14 346	13 986	12 918	12 605

# 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 335,893,463.50. Series A shares carry ten (10) votes and Series B shares one (1) vote at general shareholders' meetings. The nominal value of the shares is EUR 3.50. All shares carry equal dividend rights. There are 23,579,587 Series A shares and 72,389,974 Series B shares making 95,969,561 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 ended on 31 March 2007. Any extra dividends distributed after 25 May 2001 and before the subscription of shares were 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 was 800,000 and they could 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 were 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 was 14.60 euros and the share subscription price of 2002 options 7.40 euros.

During the subscription period 3,418,944 shares were subscribed based on the 2001 and 2002 option schemes, which corresponds to 3.7% of the share capital. A total of 31,056 shares have not been subscribed.

## Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 290,642 Wärtsilä Corporation shares, which represent 0.3% of the stock and 0.4% of the voting rights.

## Shareholders

Wärtsilä has approximately 24,300 shareholders. At the end of the period approx. 50% of the capital was held by foreign shareholders. At the end of 2006 the corresponding figure was 29%. The big change in foreign shareholdings is mainly explained by the transaction between Fiskars Corporation and its wholly owned subsidiary Avlis AB, registered in Sweden.

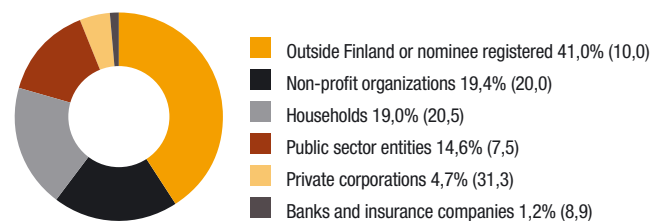
## Flagging notices

During 2007 Wärtsilä was notified of the following changes in ownership in accordance with the Finnish Securities Act chapter 2 paragraph 9:

## Ownership structure according to shares 31 December 2007



## Ownership structure according to votes 31 December 2007



On 3 July 2007 Varma Mutual Pension Insurance Company increased its holding in Wärtsilä Corporation. Following the transaction Varma owned 2,795,615 A shares and 1,188,691 B shares giving a total holding of 3,984,306 Wärtsilä shares or 4.16% of Wärtsilä's share capital and 9.46% of the total votes.

On 3 July 2007 Sampo plc decreased its holding in Wärtsilä Corporation. Following the transaction Sampo owned 584,668 A shares or 0.61% of Wärtsilä's share capital and 1.90% of the total votes.

On 22 August 2007 Svenska Litteratursällskapet i Finland r.f. increased its holding in Wärtsilä Corporation. Following the transaction it owned over 1/20 of the company's votes, 1,546,596 A shares and 17,000 B shares giving a total holding of 1,563,596 Wärtsilä shares or 1.63% of Wärtsilä's share capital and 5.03% of the total votes.

On 23 August 2007 Varma Mutual Pension Insurance Company increased its holding in Wärtsilä Corporation. Following the transaction it owned over one tenth (1/10) of the company's votes, 3,547,257 A shares and 1,188,691 B shares giving a total holding of 4,735,948 Wärtsilä shares or 4.94% of Wärtsilä's share capital and 11.91% of the total votes.

On 20 December 2007 Fiskars Corporation decreased its holding in Wärtsilä Corporation to less than 1/20 (5%) of the share capital and voting rights. Following the transaction it held 752,047 A shares and 65,429 B shares giving a total holding of 817,476 shares or 0.85% of Wärtsilä's share capital and 2.46% of the total votes.

On 20 December 2007 Avlis AB, a wholly owned subsidiary of Fiskars Corporation, increased its holding in Wärtsilä Corporation to more than 3/20 (15%) of the share capital and more than ¼ (25%) of the voting rights. Following the transaction it held 8,500,000 A shares and 6,500,000 B shares giving a total holding of 15,000,000 shares or 15.63% of Wärtsilä's share capital and 29.69% of the total votes.

### Authorizations granted to the Board of Directors

The AGM held on the 14 of March 2007 authorized the Board to issue new Series A and/or Series B shares in one or several instalments. The share issue can be executed on the conditions and at the price determined by the Board.

Under this authorization at most totally 9,555,434 new shares may be issued. Within this total amount of shares

- at most 2,357,958 new A shares and at most 7,197,476 new

B shares are issued to the shareholders in proportion to their existing holdings, and/or

- at most 9,555,434 B shares are issued, disapplying the pre-emptive right of the shareholders provided that the Company has important financial grounds for doing so.

The authorization may be exercised, within the restrictions listed above, to develop the company's capital structure, to broaden its ownership base, as consideration in acquisitions or when the company acquires assets related to its business. The rights issue may also be executed as payment in kind or by using the right of set-off.

The authorization remains in force until the following Annual General Meeting.

### The Board of Directors' dividend proposal to the Annual General Meeting 2008

The Board of Directors proposes to the Annual General meeting on 19 March 2008 that a dividend of 2.25 euros per share and an extra dividend of 2.00 euros per share, making a total dividend of 4.25 euros per share be distributed for the financial period ended 31 December 2007.

### Dilutive effect of the option schemes

	Series B	Number of shares %	Share capital EUR	Votes %	Price, EUR	Subscription period
Option scheme (2002)	31 056	0.0	108 696	0.0	7.40	1 April 2004–31 March 2008 <sup>1</sup>

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

<sup>1</sup> Subscription period annually between 2 Jan.–30 Nov.

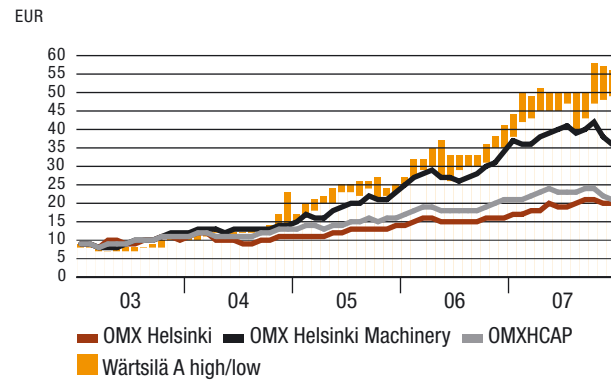
### Change in share capital

	Shares	%	Votes	Series A %	Shares	%	Votes	Serie B %	Shares	Total Votes
Shares and votes 31 Dec. 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
Options subscribed	-	-	-	-	415 209	-	415 209	-	415 209	415 209
<b>Total 31 Dec. 2007</b>	<b>23 579 587</b>	<b>24.6</b>	<b>235 795 870</b>	<b>76.5</b>	<b>72 389 974</b>	<b>75.4</b>	<b>72 389 974</b>	<b>23.5</b>	<b>95 969 561</b>	<b>308 185 844</b>

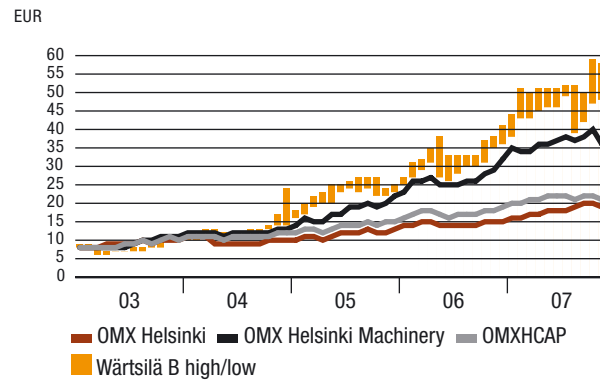
## Share information

	Series A	Series B
Share codes		
Helsinki Exchange	WRTAV	WRTBV
Reuters	WRTAV.HE	WRTBV.HE
Bloomberg	WRTAV.FH	WRTBV.FH
Votes/share	10	1
Number of shares	23 579 587	72 389 974

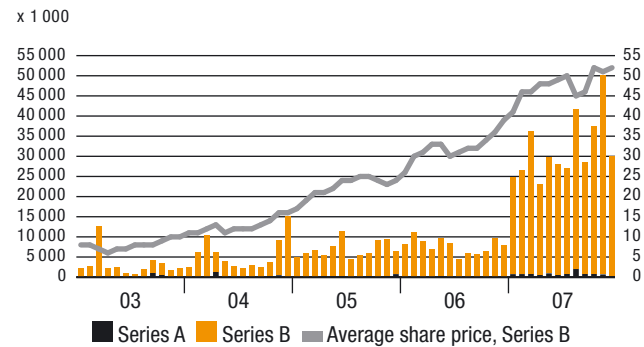
### Series A quotations 2003-2007



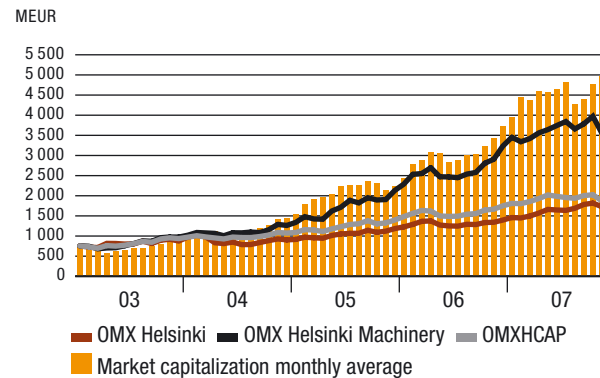
### Series B quotations 2003-2007



### Traded shares/month 2003-2007



### Market capitalization 2003-2007





## Major shareholders 31 December 2007

	Number of shares x 1 000		% of votes	% of shares
	Series A	Series B		
1 Avlis AB	8 500	6 500	29.69	15.63
2 Varma Mutual Pension Insurance Company	3 540	1 013	11.82	4.74
3 Svenska litteratursällskapet i Finland r.f.	1 547	17	5.02	1.63
4 Fiskars Corporation	752	58	2.46	0.84
5 Sigríd Jusélius Foundation	558	1	1.81	0.58
6 Brita Maria Renlund Foundation	354	230	1.23	0.61
7 The Signe and Ane Gyllenberg Foundation	373	0	1.21	0.39
8 The Social Insurance Institution of Finland	284	652	1.13	0.98
9 Ilmarinen Mutual Pension Insurance Company	74	1 812	0.83	1.97
10 Åbo Akademi Foundation	225	50	0.75	0.29
11 Relander Gustaf	215	0	0.70	0.22
12 William Thuring's Stiftelse	200	20	0.66	0.23
13 Magnus Ehrnrooth Foundation	200	0	0.65	0.21
14 Jenny and Antti Wihuri Foundation	144	471	0.62	0.64
15 Livräntestalten Hereditas	155	280	0.59	0.45
16 Ella and Georg Ehrnrooth Foundation	142	264	0.55	0.42
17 Samfundet Folkhälsan i svenska Finland rf	141	252	0.54	0.41
18 Bergsr. Dr H.C. Marcus Wallenberg Foundation	130	0	0.42	0.14
19 Inez och Julius Polins Fond	73	431	0.38	0.52
20 Kuolinpesä Rantanen Yrjö	102	128	0.37	0.24
<b>20 largest total</b>	<b>17 709</b>	<b>12 179</b>	<b>61.43</b>	<b>31.14</b>

Wärtsilä has about 24.300 registered shareholders.

## Division of shares 31 December 2007

Number of shares	Number of shareholders	%	Series A		Series B		Number of shares	%
			Number of shares	%	Number of shareholders	%		
1-100	4 494	46.7	198 624	0.8	5 285	23.7	298 589	0.4
101-1 000	4 235	44.0	1 419 894	6.0	12 894	57.9	4 947 121	6.8
1 001-10 000	804	8.4	1 947 097	8.3	3 724	16.7	9 622 551	13.3
10 001-100 000	74	0.8	2 448 850	10.4	315	1.4	8 073 664	11.2
100 001-1 000 000	15	0.2	3 978 209	16.9	32	0.1	8 792 147	12.1
1 000 001-	3	0.0	13 586 913	57.6	6	0.0	40 621 418	56.1
<b>Total</b>	<b>9 625</b>	<b>100.0</b>	<b>23 579 587</b>	<b>100.0</b>	<b>22 256</b>	<b>100.0</b>	<b>72 389 974</b>	<b>100.0</b>

## Ownership structure 31 December 2007

%	Shareholders	Series A Shares	Shareholders	Series B Shares	Votes	Total Shares
Private corporations	1.9	1.3	3.5	2.2	4.7	3.5
Banks and insurance companies	0.1	0.2	0.4	2.3	1.2	2.5
Public sector entities	0.2	4.1	0.2	6.2	14.6	10.3
Non-profit organizations	3.3	5.5	3.2	7.0	19.4	12.6
Households	93.0	4.4	91.6	16.7	19.0	21.1
Outside Finland and nominee-registered	1.5	9.1	1.1	40.9	41.0	50.0
<b>Total</b>	<b>100.0</b>	<b>24.6</b>	<b>100.0</b>	<b>75.4</b>	<b>100.0</b>	<b>100.0</b>

The adjacent tables are based on the book-entry accounts at 31 December 2007.

## The Wärttilä shares on the Helsinki Stock Exchange

		2007	2006	2005	2004	2003
Trading volume	MEUR					
Series A		665.7	55.6	72.2	41.6	21.0
Series B		6 018.1	2 963.2	1 796.6	860.0	275.9
Total		6 683.8	3 018.8	1 868.8	901.6	296.9
Number of traded	x 1 000					
Series A		13 412	1 716	3 160	2 180	2 508
Series B		125 257	92 322	79 635	45 527	35 001
Total		138 669	94 038	82 795	47 707	37 509
Stock turnover	%					
Series A		56.8	7.2	13.4	9.2	10.8
Series B		173.0	128.2	112.9	66.0	52.8
Total		144.4	98.4	88.0	51.5	41.9
Average share price	EUR					
Series A		49.63	32.52	22.73	13.03	8.37
Series B		48.04	32.07	22.46	13.60	7.89
Trading low/high	EUR					
Series A	low	38.05	24.60	15.31	10.17	6.67
	high	58.00	40.99	26.70	17.32	10.87
Series B	low	38.44	24.80	15.68	9.97	6.13
	high	58.89	41.20	27.09	17.48	10.63
Share price at the year-end	EUR					
Series A		53.09	40.75	24.84	15.24	10.17
Series B		52.09	40.81	25.00	15.68	10.13
Year-end market capitalization	MEUR	5 023	3 898	2 349	1 441	907

## Key figures for Wärttilä shares

		2007	2006	2005	IFRS 2004	FAS 2004	2003
Earnings per share (EPS)	EUR	2.74	3.72	1.80	1.42	1.75	-0.44
Book value of equity per share	EUR	13.70	12.74	12.25	9.65	9.22	8.69
Dividend per share	EUR	4.25 <sup>1</sup>	1.75	3.00	0.90	0.90	0.50
Dividend per earnings	%	155.1 <sup>1</sup>	47.0	166.7	63.4	51.4	n/a
Dividend yield	%						
Series A		8.01	4.29	12.08	5.91	5.91	4.92
Series B		8.16	4.29	12.00	5.74	5.74	4.93
Price per earnings (P/E)							
Series A		19.4	11.0	13.8	10.7	8.7	n/a
Series B		19.0	11.0	13.9	11.0	9.0	n/a
Price to book-value (P/BV)							
Series A		3.9	3.2	2.0	1.6	1.7	1.2
Series B		3.8	3.2	2.0	1.6	1.7	1.2
Adjusted number of shares	x 1 000						
end of financial year		95 970	95 554	94 107	91 341	91 341	89 475
on average		95 751	94 429	93 010	92 551	92 551	89 341

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

# Wärtsilä on the Capital Markets 2007

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 Investor Relations policy

The ultimate objective our Investor Relations is to produce accurate, sufficient and up-to-date information about the development of our business operations, strategy, markets and financial position to ensure that the capital markets have relevant information about the company and its shares in order to determine the fair value of our shares. To reach this objective we annually publish three interim reports, a financial statement bulletin, an annual report and stock exchange releases. Furthermore, our 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. Should business circumstances change and impact the prospects, Wärtsilä would publish changes in the prospects in accordance with regulation.

## Market estimates

Upon request by an analyst we will review 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 our representatives do not meet investors or analysts, or comment on our financial position.

## Communications policy and financial communication

Wärtsilä discloses information on its goals, financial position and business operations in an open, timely, truthful and systematic manner to enable stakeholders to form a true and fair view of the company. Our communications activities comprise internal and external corporate communications and investor relations. Wärtsilä publishes stock exchange releases, general press releases and trade press releases. Our subsidiaries publish press releases with local relevance.

Stock exchange releases give information on news that could affect the share price. Press releases provide information on business-related news or other news of general interest to our stakeholders. Releases to the trade press provide more detailed information on our products and technology. All releases are published in Finnish, Swedish and English except those to the trade press, which are produced only in English. The stock exchange releases and press releases are available on [wartsila.com](http://wartsila.com) immediately after they are published.

## Contacts

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

Ms Joséphine Mickwitz  
Director, Investor Relations  
Tel. +358 10 709 5216  
GSM +358 400 784 889  
E-mail: [josephine.mickwitz@wartsila.com](mailto:josephine.mickwitz@wartsila.com)

Wärtsilä's corporate communications and media relations are the responsibility of Ms Eeva Kainulainen.

Ms Eeva Kainulainen  
Vice President, Corporate Communications & IR  
Tel. +358 10 709 5235  
GSM +358 40 568 0591  
E-mail: [eeva.kainulainen@wartsila.com](mailto:eeva.kainulainen@wartsila.com)

## Investor Relations activities in 2007

During 2007 Wärtsilä's IR team conducted more than 100 IR meetings in Helsinki, London, Edinburgh, Paris, Frankfurt, Amsterdam, Stockholm, Copenhagen, New York and Boston. Several investor groups also visited Wärtsilä facilities in various countries, including and the UAE. The IR team also gave company presentations at several domestic and international investor conferences. The Capital Markets Day was held in November in Vaasa Finland. In the spring Wärtsilä participated in the Investment Evenings arranged by the Finnish Foundation for Share Promotion and in the autumn the company was present at the SIJOITUS-INVEST fair in Helsinki. These events were aimed towards retail investors

## 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.

<b>Alfred Berg ABN AMRO</b>	Mr Jan Brännback	+358 9 228 321	jan.brannback@alfredberg.fi
<b>CA Cheuvreux</b>	Mr Patrik Sjöblom	+46 8 723 5115	psjoblom@cheuvreux.com
<b>Carnegie Investment Bank AB, Finland Branch</b>	Mr Miikka Kinnunen	+358 9 618 711	miikka.kinnunen@carnegie.fi
<b>Danske Bank A/S, Helsinki Branch</b>	Mr Antti Suttelin	+358 10 236 4708	antti.suttelin@mandatum.fi
<b>Deutsche Bank AG, Helsinki Branch</b>	Mr Timo Pirskanen	+358 9 2525 2553	timo.pirskanen@db.com
<b>Enskilda Securities AB, Helsinki Branch</b>	Mr Sasu Ristimäki	+358 9 6162 8900	sasu.ristimaki@enskilda.fi
<b>eQ Bank</b>	Mr Erkki Vesola	+358 9 6817 8402	erkki.vesola@eQonline.fi
<b>Evli Bank</b>	Mr Jari Harjunpää	+358 9 4766 9726	jari.harjunpaa@evli.com
<b>Glitnir Bank</b>	Ms Sanna Kaje	+358 9 6134 6430	sanna.kaje@glitnir.fi
<b>Goldman Sachs International</b>	Mr Charles Burrows	+44 20 7774 6504	charles.burrows@gs.com
<b>Handelsbanken Capital Markets</b>	Mr Tom Skogman	+358 10 444 2752	tom.skogman@handelsbanken.fi
<b>Kaupthing Bank</b>	Mr Johan Lindh	+358 9 4784 0268	johan.lindh@kaupthing.fi
<b>Landsbanki</b>	Mr Lauri Saarela	+358 9 681 750	lauri.saarela@landsbanki.com
<b>OKO Bank plc</b>	Mr Sampo Brisk	+358 10 252 4504	sampo.brisk@okobank.com
<b>Standard &amp; Poors</b>	Ms Teea Reijonen	+44 20 7176 7823	teea_reijonen@standardandpoors.com

## Annual summary of stock exchange releases

<b>20.11.2007</b>	Wärtsilä Capital Markets Day: Wärtsilä's net sales to increase by about 25% in 2008 and profitability to improve
<b>30.10.2007</b>	Interim report January–September 2007
<b>03.08.2007</b>	Interim report January–June 2007
<b>03.08.2007</b>	Publication of Wärtsilä's financial information 2008 and 2009
<b>30.07.2007</b>	Wärtsilä wins 160 MW power plant order from Pakistan
<b>03.07.2007</b>	Supreme Court not granting leave to appeal: Wärtsilä's subsidiary and employee found not guilty
<b>10.05.2007</b>	Wärtsilä to supply six BioPower power plants to Germany
<b>04.05.2007</b>	Interim report January–March 2007
<b>28.03.2007</b>	Delisting offer of Wärtsilä India successfully completed
<b>14.03.2007</b>	Wärtsilä's January-February 2007 order intake grew 19% on same period last year
<b>14.03.2007</b>	Decisions of Wärtsilä's Annual General Meeting 14 March 2007
<b>14.03.2007</b>	Constitutive meeting of the Board of Directors of Wärtsilä Corporation
<b>01.03.2007</b>	Wärtsilä Corporation's annual summary of releases 2006
<b>14.02.2007</b>	Invitation to Wärtsilä Corporation's Annual General Meeting 14 March 2007
<b>06.02.2007</b>	Wärtsilä's financial statements bulletin 2006
<b>23.01.2007</b>	Wärtsilä and Hyundai Heavy Industries to set up joint venture for dual-fuel engines for LNG-carrier market
<b>19.01.2007</b>	Wärtsilä made an offer to increase holding in Wärtsilä India Ltd
<b>02.01.2007</b>	Wärtsilä's EUR 160 million Power Plant order to Azerbaijan confirmed

The stock exchange releases and press releases are available on [www.wartsila.com](http://www.wartsila.com) immediately after they are published.



# Information for Shareholders



## Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Wednesday, 19 March 2008, beginning at 4 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 7 March 2008 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 14 March 2008 either by letter, by e-mail, by fax or by telephone.

### Registration:

Wärtsilä Corporation  
Share Register  
P.O. Box 196  
FI-00531 Helsinki  
Finland  
telephone +358 10 709 5282,  
between 9 a.m. and 12 (noon) on weekdays  
fax +358 10 709 5283  
e-mail: [yk@wartsila.com](mailto:yk@wartsila.com)  
Internet: [www.wartsila.com/agm\\_register](http://www.wartsila.com/agm_register)

Letters, e-mails and faxes informing of participation at the Annual General Meeting must reach the Company before the notification period expires at 4 p.m. on 14 March 2008. 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 2.25 per share and an extra dividend of 2.00 euros per share, making a total dividend of 4.25 euros per share will be paid for the 2007 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 26 March 2008. The dividend payment date proposed by the Board is 2 April 2008.

## Financial information 2008

### Annual Report 2007

The Annual Report is also available in Finnish and Swedish and will also be published at Wärtsilä's Internet site, [www.wartsila.com](http://www.wartsila.com).

## Interim Reports 2008

- January-March on Friday 25 April 2008
- January-June on Thursday 24 July 2008
- January-September on Friday 24 October 2008

Interim Reports are 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, releases and brochures can be ordered from the Communications Department either by telephone +358 10 709 0000, fax +358 10 709 5219, e-mail: [corporate.communications@wartsila.com](mailto:corporate.communications@wartsila.com) or via the internet at [www.wartsila.com](http://www.wartsila.com).

## Further information on Wärtsilä Corporation

Mrs Joséphine Mickwitz  
Director,  
Investor Relations  
Tel. +358 10 709 5216  
e-mail: [josephine.mickwitz@wartsila.com](mailto:josephine.mickwitz@wartsila.com)

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

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