WÄRTSILÄ

Annual Report 2000

Information for Shareholders

ANNUAL GENERAL MEETING

The Annual General Meeting of Wärtsilä Corporation will take place in the Congress Wing of the Finlandia Hall on Tuesday 20 March 2001, beginning at 4 p.m.

Shareholders who have registered themselves no later than 9 March 2001 in the Company's shareholder register maintained by the Finnish Central Securities Depository Ltd may attend the AGM.

Shareholders whose shares have not been transferred to the book-entry securities system may also attend the AGM on condition that such shareholders were registered in the Company's shareholder register before 26 February 1993. In such a case, shareholders must present at the AGM their share certificates or other evidence that their shareholding rights have not been transferred to the book-entry securities system.

Shareholders wishing to attend the AGM must notify the Company by 4 p.m. on 16 March 2001 either by letter addressed to

Wärtsilä Corporation
Share Register
P.O. Box 196
FIN-00531 Helsinki
Finland
or by telephone, +358 10 709 5295
Mrs Aila Aho.

Letters authorizing a proxy to exercise a shareholder's voting right at the AGM should be sent to the Company before the notification period expires.

PAYMENT OF DIVIDEND

The Board of Directors will propose to the Annual General Meeting that a normal dividend of EUR 0.65 and an extra dividend of EUR 2.00 or altogether EUR 2.65 per share to be paid on the 2000 financial period.

The record date for dividend payment is 23 March 2001, and the dividend payment date is 30 March, 2001, should the Board's proposal be approved.

Shareholders cannot be paid a dividend until they have transferred their shares to the book-entry securities system.

ANNUAL REPORT 2000

This Annual Report is also available in Finnish and Swedish. It is also available on Wärtsilä's Internet site, www.wartsila.com.

Imatra Steel, the division of Wärtsilä, publishes its Annual Report in Finnish and English.

INTERIM REPORTS 2001

Wärtsilä Corporation will publish Interim Reports on its financial performance during 2001 as follows:

January-March: 3 May 2001
January-June: 7 August 2001
January-September: 1 November 2001.

These Interim Reports are published in English, Finnish and Swedish on Wärtsilä's Internet site. Interim Reports will be sent by post on request. Interim Report orders:
tel. +358 10 709 0000 or
Internet: www.wartsila.com

STOCK EXCHANGE RELEASES:

Wärtsilä´s Stock Exchange releases are available in English, Finnish and Swedish on Wärtsilä´s Internet site.

Contents

Wärtsilä in Brief

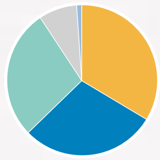
	Description	Strategy
Wärtsilä Corporation 	Wärtsilä Corporation is the leading global ship power supplier and a major provider of solutions for decentralized power generation and of supporting services. In addition Wärtsilä operates a Nordic engineering steel company and manages substantial share holdings to support the development of its core business.	**Power for land and sea**
Marine & Licensing 	Wärtsilä supplies engine room solutions, integrated propulsion systems, main and auxiliary engines and maintenance services for all types of marine vessels and offshore applications.	**The Ship Power Supplier** The world's leading supplier of marine propulsion systems and emissions control technology
Power Plants 	Wärtsilä delivers gas and oil fired power plant solutions from 1 MW to 300 MW. These power plants are used for baseload, load management, cogeneration and gas compression applications. Deliveries include turnkey construction and long-term maintenance and operation.	**Power for a changing world** Power solutions for decentralized power generation fast, flexibly and with respect for the environment
Service 	Wärtsilä's service business builds on the Group's global base of installed engines and power plants. With this activity the Group supports its customers throughout the lifecycle of these products. Wärtsilä is close to its customers, through subsidiaries in some 50 countries.	**Simply better performance** Ensuring lifetime efficiency of customers' systems
Imatra Steel 	Imatra Steel is Wärtsilä's special engineering steels company. Imatra Steel produces round, square and flat special bars, forged engine and front axle components, leaf springs and tubular stabilizer bars. The company's customers are European automotive and mechanical engineering companies.	**Special engineering steels for automotive and mechanical engineering companies**
Holdings 	Wärtsilä's strategic holdings include Sanitec, Assa Abloy and Wärtsilä Real Estate. The holdings are: • Assa Abloy 16.4% • Sanitec 46.7% • Wärtsilä Real Estate 100%	**Strategic holdings create financial resources for development of Wärtsilä's core business, the Power Divisions.**

Key figures in 2000

- Net sales MEUR 2,706.8
- Operating profit MEUR 367.1
- Profit before extraordinary items MEUR 336.1
- Balance sheet total MEUR 2,465.3
- Gearing 0.60
- Personnel at year end 10,564

Global presence

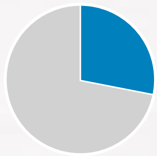
Net sales by divisions 2000



- Power Plants Division 34% (32%)
- Marine & Licensing Division 29% (31%)
- Service Division 28% (28%)
- Imatra Steel 8% (8%)
- Other 1% (1%)

- Net sales MEUR 719.7
- Order intake MEUR 878.9
- Year-end order book MEUR 888.1

Market share of Wärtsilä Marine & Licensing

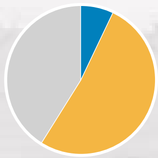


- Wärtsilä 28% (29%)
- Other engine makers 72% (71%)

Incl. main and auxiliary engines for ships 6/1999-5/2000
Total market 23,743 MW (+38 %)

- Net sales MEUR 834.6
- Order intake MEUR 851.0,
- Year-end orderbook MEUR 518.5

Wärtsilä Power Plants Market Share

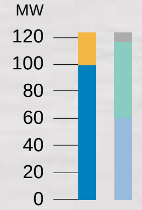


- Wärtsilä 7% (10%)
- Gas turbines 52% (40%)
- Other engine makers 41% (50%)

Engine and gas turbine orders for power plants 6/1999-5/2000
Total 24.449 MW (+51%)

- Net sales MEUR 702.0
- Personnel at year end 4,003
- Operation contracts for 1,262 MW

Wärtsilä's engine base

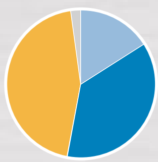


- Power Plants
- Marine engines

- High-speed
- Medium-speed
- Low-speed

- Net sales MEUR 194.1
- Operating profit MEUR 17.4
- Profit before extraordinary items MEUR 14.5
- Personnel at year end 1,280

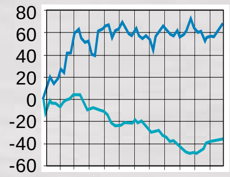
Imatra Steel net sales by market area 2000



- Finland 16% (16%)
- Other Nordic countries 37% (38%)
- Other EU countries 44% (44%)
- Other countries 2% (2%)

Market value of Wärtsilä's holdings on 31 Dec. 2000:
- Assa Abloy MEUR 1,207.9
- Sanitec MEUR 247.2
- Wärtsilä Real Estate, book value MEUR 27.5.

The relative share performance of Assa Abloy and Sanitec in 2000



- Assa Abloy
- Sanitec

Wärtsilä's strategy

MISSION

We contribute to solving the global needs of sea transportation and power generation by developing equipment and services that convert fossil fuel into power efficiently and with the lowest possible environmental impact.

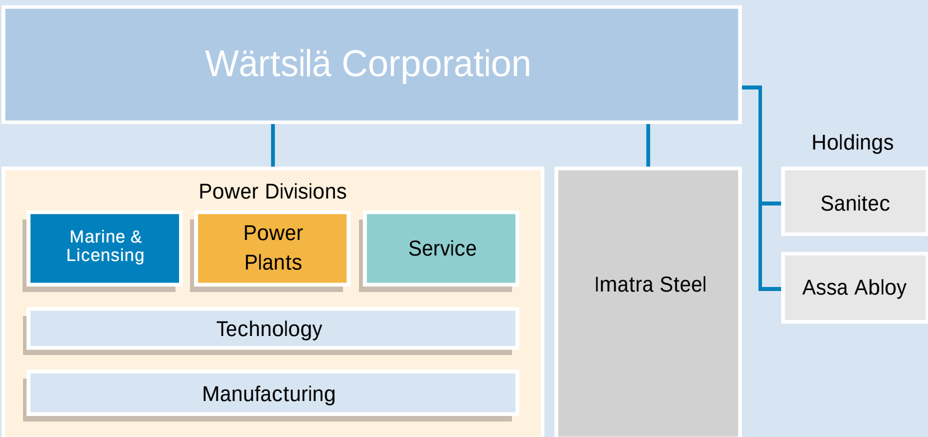
VISION

Wärtsilä Corporation is the leading global ship power supplier and a major provider of solutions for decentralized power generation and of supporting services.

OUR MISSION AND VISION MEAN THAT:

- We take responsibility for the total functionality of our system supplies.
- We maintain and develop a comprehensive service network capable of enhancing the value of our customers' equipment.
- Our operations are based on a network of long-term, high-value subcontractor relationships.
- We develop products that meet the strictest environmental criteria.
- We create value for our shareholders.

Group Structure



Targets

OPERATIONAL

Wärtsilä's target is to become the leading global ship power supplier.

In Power Plants, Wärtsilä's target is to raise the volume of its gas power plant deliveries to half of its total power plant business.

The annual growth target for Wärtsilä's Service Division is 10-15%. The target is to grow the service business so that it represents over one-third of the total net sales of the Power Divisions.

In the Marine & Licensing and Power Plants divisions Wärtsilä's target is to grow 4% a year.

FINANCIAL

Wärtsilä seeks growth. Annual organic growth target on average is 7%. Further growth will be achieved through acquisitions.

Wärtsilä's target is to improve its performance by raising its operating profit to 7-8% of net sales.

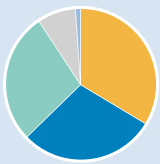
The solvency ratio target is 40%.

DIVIDEND POLICY

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

Achievements

CONTINUOUS BUSINESS NET SALES 2000



- Power Plants Division 33,6%
- Marine & Licensing Division 29,0%
- Service Division 28,3%
- Imatra Steel 7,8%
- Other 1,3%

KEY RATIOS		Year			Most recent quarters		
EUR million	1998	1999	2000	1-3/00	4-6/00	7-9/00	10-12/00
Net sales	2,602.6	2,700.0	2,706.8	756.0	596.1	597.9	756.8
Operating profit	87.6	272.7	367.1	136.9	28.4	153.3	48.5
Profit before extraordinary items	44.9	237.0	336.1	133.9	16.5	134.8	50.9
Earnings per share, euro	0.45	4.43	4.20	1.54	0.16	1.83	0.67
Balance sheet total	2,581.5	2,971.2	2,465.3	2,681.7	2,566.7	2,649.3	2,465.3
Interest-bearing liabilities, gross	686.8	794.3	485.0	726.2	622.2	555.9	485.0
Convertible subordinated debentures	117.2	117.2	117.2	117.2	117.2	117.2	117.2
Cash and bank balances	83.9	110.3	118.9	83.2	70.7	155.1	118.9
Personnel, end of period	14,422	17,937	10,564	10,246	10,313	10,202	10,564



President's Review

Dear shareholders,

Wärtsilä had a successful year in 2000 in many respects. The core of our operations, the Power Divisions, reached their main goal to achieve a substantial improvement in profitability. At the same time the Group enhanced its strategic position as a supplier of complete marine power systems and the importance our service business increased. Our resolute action to raise power plant volumes and improve profitability also brought results: we supplied power plants for EUR 835 million or more than 1,700 megawatts, a 31% increase on the previous year. Our special engineering steel company, Imatra Steel, likewise performed well despite weak price levels in its sector.

The Power Divisions (formerly called Wärtsilä NSD) posted a profit after three years of losses. Accordingly, the Group's operational earnings per share totalled EUR 1.25 (0.05 in 1999). Furthermore, we entered a one-time profit of EUR 2.95 per share (2.38) mainly from the sale of shares in Assa Abloy. Hence, earnings per share totalled EUR 4.20 (2.43).

The consolidated cash flow was strong throughout the period. Cash flow from operations totalled EUR 140.3 million while capital expenditure on production remained at EUR 56.0 million. When the proceeds of the share disposals are included, the Group's gearing improved distinctly.

We took further action during the period to develop the Group with the aim of achieving a clearer and more focused corporate structure. Wärtsilä's holding in Sanitec decreased to 46.7% when the decision of the annual shareholders' meeting to give shareholders altogether 10.9 million Sanitec shares, 17.5% of the total, was put into effect. Hence, Sanitec is no longer a Wärtsilä subsidiary.

We reduced our holding in Assa Abloy by selling 1/6 of our Assa Abloy shares, altogether 12 million shares, in two instalments. Wärtsilä remains Assa Abloy's largest shareholder, however, with nearly 58 million shares, i.e. 16.4% of the total and representing 29.1% of the voting rights. On December 31, 2000 this holding was worth EUR 1,208 million (943).

The distribution of Sanitec shares in spring 2000, and the sale of the Assa Abloy shares are part of Wärtsilä's strategy to concentrate on engineering. Any financial resources not required to build up and develop our core businesses will be distributed to our shareholders.

The name of the parent company, and indeed of the Group, was changed during the year. Metra, which had served as the name for a multi-business corporation, made way for the brand name Wärtsilä, which is so well known around the world. The Group's Power Divisions, previously known as Wärtsilä NSD, now continue simply under the Wärtsilä name. The letters NSD, which originated from the New Sulzer Diesel company acquired in 1997, became history even though the Group remains fully committed to developing and selling Sulzer-branded engines. This action to unify the names of the Group and its subsidiaries with its products and services will generate significant savings and enhance awareness.

The structure of the Power Divisions was developed and the management was strengthened allowing the divisions to focus more independently on their own global customer segments. It is important for us that our customers receive the same high level of service from Wärtsilä regardless of where they happen to be geographically.

The Group's strategic direction is clear. Our aim is to become the leading ship power supplier and a significant supplier of decentralized power plants suitable for producing power and heat. Our service and spare parts business should continuously contribute over one-third of our total sales. We are aiming at an average growth of 7% annually and we believe we will achieve an operating profit of 7-8% of net sales in 2003.

Dear shareholders, we are confident that our progress in 2001 will keep us on course towards reaching our long-term goals. I would like to thank you, our customers, for the confidence and loyalty you have shown in our products and services. I would also like to thank our shareholders for the confidence you continue to place in our company, and all our employees for your considerable efforts during the year on the Group's behalf.

February 2001

Ole Johansson

From left: Robert G. Ehrnrooth, Georg Ehrnrooth, Göran J. Ehrnrooth, Jaakko Iloniemi, Paavo Pitkänen, Christoffer Taxell, Vesa Vainio.

Board of Directors

Mr Robert G. Ehrnrooth, Lic Sc (Econ.), Chairman, born 1939. Chairman of the Board of Lohja Corporation 1986 - 90. Chairman of the Board of Wärtsilä Corporation since 1990. Term expires in 2003. Member of the Boards of Finnair Oyj and Fiskars Corporation. Owns 30,412 shares in Wärtsilä.

Mr Georg Ehrnrooth, M Sc (Eng.), born 1940. Former President and CEO of Wärtsilä Corporation. Member of the Board of Wärtsilä Corporation since 1999. Term expires 2002. Chairman of the Boards of Assa Abloy AB and Sanitec Corporation, member of the Boards of Nokia Corporation, Sampo-Leonia Insurance Company plc and Sandvik AB, member of the Supervisory Board of Rautaruukki Corporation. Owns 22,940 shares in Wärtsilä and warrants with right to subscribe 49,200 shares.

Mr Göran J. Ehrnrooth, M Sc (Econ.), born 1934. Chairman of the Board of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 1992. Term expires in 2002. Member of the Board of Assa Abloy AB and Supervisory Board of Rautaruukki Corporation. Owns 26,528 shares in Wärtsilä.

Mr Jaakko Iloniemi, M Sc (Pol. Sc.), born 1932. Member of the Board of Wärtsilä Corporation since 1994. Term expires in 2003. Owns no shares in Wärtsilä.

Mr Paavo Pitkänen, MA, born 1942. Managing Director of Varma-Sampo Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 1995. Term expires in 2001. Member of the Boards of Stora Enso Oyj, Sampo-Leonia Insurance Company plc and Partek Corporation, member of the Supervisory Board of Alma Media Corporation. Owns no shares in Wärtsilä.

Mr Christoffer Taxell, LLM, born 1948. President and CEO and member of the Board of Partek Corporation. Member of the Board of Wärtsilä Corporation since 1996. Term expires in 2002. Member of the Boards of Stockmann plc and Sampo-Leonia Insurance Company plc. Owns 700 shares in Wärtsilä.

Mr Vesa Vainio, LLM, Deputy Chairman, born 1942. Chairman of Nordea AB. Member of the Board of Wärtsilä Corporation since 1993. Term expires in 2002. Member of the Board of Nokia Corporation and UPM-Kymmene Corporation. Owns no shares in Wärtsilä.

From left: Ole Johansson, Sven Bertlin, Pekka Ahlqvist, Christian Andersson, Tage Blomberg, Matti Kleimola, Raimo Lind, Mikael Mäkinen

Board of Management

Mr Ole Johansson, B Sc (Econ.), born 1951. President and CEO. Worked for the company 1975-79 and rejoined in 1981. Owns 9,500 shares in Wärtsilä.

Mr Sven Bertlin, B Sc (Econ.), born 1944. Executive Vice President. Group Vice President, Manufacturing, Quality and Purchasing. Joined the company in 1970. Owns 2,872 shares in Wärtsilä and warrants with right to subscribe 9,600 shares.

Mr Pekka Ahlqvist, M Sc (Eng.), born 1946. Group Vice President, Power Plants. Joined the company in 1999. No shares in Wärtsilä.

Mr Christian Andersson, LLM, born 1944. Group Vice President, Human Resources, Administration and External Relations, Secretary to the Board of Management. Joined the company in 1985. Owns 120 shares in Wärtsilä and warrants with right to subscribe 3,600 shares.

Mr Tage Blomberg, B Sc (Eng.), born 1949. Group Vice President, Service and Operations. Joined the company in 1975. Owns 1,100 shares in Wärtsilä.

Mr Matti Kleimola, Lic. Sc (Tech.), born 1946. Prof., CTO, Group Vice President, Technology and Environment. Joined the company in 2000. Owns 1,000 shares in Wärtsilä.

Mr Raimo Lind, M Sc (Econ.), born 1953. Group Vice President, CFO. Employed by the company 1976-89 and rejoined in 1998. Owns 1,560 shares in Wärtsilä.

Mr Mikael Mäkinen, M Sc (Eng.), Naval Architect, born 1956. Group Vice President, Marine & Licensing. Joined the company in 1982. No shares in Wärtsilä.

Corporate Governance

Wärtsilä Corporation adheres to the application guideline on the administration of public listed companies issued by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. Application of this guideline was recommended by the Helsinki Exchanges on 2 October 1997.

BOARD OF DIRECTORS

The company's administration and appropriate organization of its operations is the responsibility of the Board of Directors, which comprises 5-8 members. The members of the Board are elected by the Annual General Meeting of shareholders for three years at a time, their terms of office ending at the close of the third AGM following their election. The Board elects a chairman and deputy chairman from among its members who serve until the close of the subsequent AGM. Information on the members of the Board of Directors and their business interests appears on page 8.

The principles applied by the Board in its regular work are set out in the Rules of Procedure approved by the Board. These also define the main tasks and operating principles to be adopted by the committees which the Board appoints. The committees do not have the authority to make decisions; their purpose is to prepare matters for consideration by the Board at its meetings.

The Board of Directors convened 11 times during 2000. The Chairman was Mr Robert G. Ehrnrooth and the Deputy Chairman was Mr Vesa Vainio. The Board appointed three committees as in previous years: a Planning Committee for strategic planning, an Audit Committee to supervise the annual accounts and financial control, and a Personnel Administration Committee to oversee remuneration, pensions and other matters related to the company's human resources.

Planning Committee:
Robert G. Ehrnrooth, Vesa Vainio, Georg Ehrnrooth, Göran J. Ehrnrooth and Jaakko Iloniemi.

Audit Committee:
Robert G. Ehrnrooth, Georg Ehrnrooth, Göran J. Ehrnrooth and Paavo Pitkänen.

Personnel Administration Committee:
Robert G. Ehrnrooth, Georg Ehrnrooth, and Christoffer Taxell.

THE PRESIDENT AND CEO

The company's Board of Directors appoints a President for the Group and, if required, one or more executive vice presidents. The company's president is also its chief executive officer. The company currently has one executive vice president who has also been appointed deputy to the President and CEO.

THE BOARD OF MANAGEMENT

The company's Board of Management comprises the president and CEO, the executive vice president, the heads of the divisions, the chief financial officer and the group vice president, administration. 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 deals with the Group's strategic issues, investments, product policy, corporate structure and control systems. It also monitors the Group's activities and performance.

The heads of the divisions being also members of the Board of Management are each responsible for the profitability and sales volume of their respective global business areas assisted by the Group's subsidiaries in various countries. Information on the members of the Board of Management is given on page 9.

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 and the president of Imatra Steel.

Corporate Management meetings are chaired by the President and CEO and their composition varies depending on the issues under consideration. Corporate Management meetings are convened to prepare proposals to the company's Board of Directors, to deal with issues concerning communications, personnel development, quality, information management and other development issues, to handle relations with licensees and other stakeholders, and to consider issues specific to Imatra Steel.

Information on the members of the Corporate Management is given on page 78.

ADVISORY BOARD

In strategic issues concerning the Power Divisions the management is supported by an Advisory Board comprising Georg Ehrnrooth (chairman), Corrado Antonini, Jannik Lindbaek and Peter Sulzer.

DIVISION BOARDS

Each division head is supported by a Division Board. Information on the members of the Division Boards is given on pages 78-79. Imatra Steel has its own Board of Directors.

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 divisions; that the subsidiary's operations fulfill the requirements stipulated in the Group's quality system; and that these operations comply with the respective country's legal requirements and good business practice.

INSIDERS

Wärtsilä applies the Guidelines for Insiders approved by the Helsinki Exchanges on 28 October 1999. The Board of Directors decided on 15 February 2000 to adopt the Guidelines for Insiders from 1 March 2000.

Wärtsilä's permanent insiders comprise the statutory insiders as well as the members of the Board of Management and certain other members of corporate management. Information on the interests and holdings of the company's permanent insiders is available from the SIRE system of the Finnish Central Securities Depository Ltd, Eteläesplanadi 20, FIN-00130 Helsinki, Finland, tel. +358-800-180 500.

MANAGEMENT INCENTIVE SCHEMES

As authorized by the AGM in 1996, the company issued bonds with warrants to top management with a total nominal value of FIM 180,000 (EUR 30,274). The share subscription period began on 1 September 1996 and ends on 2 May 2003, when the principal will be repaid. The subscription price is EUR 13.49. The bonds were subscribed by 34 executives in corporate and divisional management.

The company also operates a bonus system for senior managers in the parent company, the divisions and the subsidiaries. The bonus is based on the company's earnings per share or division result and agreed personal targets. Approximately 500 directors or managers are covered by this bonus scheme.

The Board of Directors proposes to the General Meeting of Shareholders on 20 March 2001 that warrants be issued to the key personnel of the Wärtsilä Group. The proposed number of warrants is 1,500,000 and they entitle to subscription of the same number of B-shares in Wärtsilä Corporation. The shares that can be subscribed for on the basis of the warrants correspond to 2.7% of the share capital and 0.8% of the voting rights. The purpose of the warrant scheme is to encourage the key personnel to work on a long term basis to increase the shareholder value and to commit the personnel to the company.



Wärtsilä Values

Trust
create an atmosphere of mutual trust, teamwork and lack of politics to release energy in the organisation

Creativity
be open to change, give new ideas a fair hearing

Respect
show every individual respect, irrespective of position and background

Excellence and Best Practice
strive for quality and excellence in everyday work, be prepared to learn from others

Openness
promote openness throughout the organisation in order to achieve a fruitful flow of information, suggestions and constructive criticism.

Determination and "Sisu"
never give up, do not leave things half-done

GROUP VALUES

In the field of human resources the year 2000 was marked by further efforts to integrate the Group along divisional lines. The Road Map developed in 1999 links the strategy of the Wärtsilä Power Divisions to the Group values as well as to the individual contribution of each employee to the Group's targets. The Road Map is used in every HR activity from strategic planning to recruitment, performance management, assessment and rewarding. The application of the Road Map also gives valuable information on the expectations and the satisfaction level of the employees. The six Group values – Trust, Creativity, Respect, Excellence and Best Practice, Openness, and Determination and "Sisu" - have been established through a bottom-up and a top-down process over a number of years and reflect the origin of the Group, the businesses it is engaged in and how it operates. These values are seen as an important organisational glue allowing the organisation to work in a highly decentralised manner close to its customers.

HUMAN RESOURCES DEVELOPMENT

Development of human resources in the Group is increasingly based on management assessment of twelve competencies, which form a part of the Road Map. Today more than 400 managers have been assessed through 360 degrees feedback and the compiled results of these assessments have helped Group management to review and redirect training programmes on different levels to fit the needs both of Wärtsilä Corporation as a whole and of its individual managers.

The core training programme of the Group is the Reach programme, which is designed in-house. This was

implemented three times in 2000, each with two one-week modules, and altogether some 80 participants.

The third Lausanne Leadership Process designed for top management was delivered in cooperation with IMD with 18 managers representing the Wärtsilä Power Divisions and Imatra Steel. Wärtsilä is a partner and business associate of the IMD learning network in order to ensure full access to the latest knowledge and research in business management.

At the end of the year the Group decided to establish the Wärtsilä Academy. The Academy offers a learning platform with several in-house training programmes and optional modules and projects in between. The purpose of the Academy is also to facilitate the sharing of ideas and Group values throughout the company.

The training intensity of the different divisions and subsidiaries is measured as a key performance indicator and is benchmarked both internally and externally. The Group training programmes are approved by the Board of Management. Top management has made a strong commitment to participate in their execution.

ORGANISATION

Human Resources management is being reorganised to fully fit the divisional way of working and to offer assistance to divisional management. Important issues in this respect are the cascading of the Group and Division targets into responsibilities and accountabilities for each employee as well as the annual development discussions between all employees and their superiors.

New guidelines on international transfers were issued to facilitate mobility within the Group. An international pension scheme for expatriates has been developed for the same purpose.

Employee feedback on Wärtsilä's way of working was received through an extensive study on internal communication and several measures have been implemented or are being planned in response to the conclusions of the study. Performance tracking covering 750 managers was conducted at the end of the year repeating a similar study in mid-1999. This study revealed a clear improvement in employee satisfaction and customer focus while simultaneously identifying several areas for further action.

EMPLOYMENT

The company had 10,564 employees at the end of 2000. This figure includes the employees in France as a result of the split of the joint venture Cummins Wärtsilä in January 2000. It also includes the employees from the Operations business of the Service Division. With the refocus of the Group as a full service and system provider, the number of employees in the Service Division is now much higher than in the Manufacturing Division.

Social dialogue continued through National and European Works Councils. A social plan was adopted in Wärtsilä France in Mantes to reduce the number of employees. Similarly, a major restructuring plan was agreed in Wärtsilä Italy leading to a reduction of 170 employees by mid-2001. In Wärtsilä Finland the steel plate and piping workshop activities were outsourced.

The European Works Council began work on a Group-wide policy on Occupational Health and Safety which is being pursued in the framework of the Group Operative Excellence System.

Power Divisions
Power for Land and Sea

Wärtsilä is the leading global ship power supplier and a major provider of solutions for decentralized power generation and of supporting services.

The Wärtsilä Power Divisions comprise the following businesses: Marine & Licensing, Power Plants, Service, Technology and Manufacturing. The first three of these generate external net sales and the last two are internal Group functions.

HIGHLIGHTS OF 2000

Net sales of the Power Divisions increased to EUR 2,287.8 (1,896.6) million and the result was a distinct improvement, notably because of growth in the Power Plants and Service divisions. In Marine & Licensing the development was steadier but the order intake grew strongly. The order book for the Power Divisions at the end of 2000 reached an all-time high of EUR 1,624.2 million.

The result of operations for the Power Divisions was EUR 86.2 (-28,5) million. This clear improvement was the result of restructuring measures, higher volumes and enhanced business processes. The result of operations in the previous year included non-recurring costs totalling EUR 20 million from the split-up of the Cummins Wärtsilä joint venture.

PROSPECTS

The good order book of Wärtsilä's Power Divisions and the current favourable outlook will increase net sales and improve profits during 2001. Wärtsilä's systematic action to raise productivity and improve quality will be continued in order to achieve the company's long-term profit target.

FIVE YEARS IN FIGURES, POWER DIVISIONS

EUR mill.	2000	1999	1998	1997	1996
Order book, end of period	1,624.2	1,314.9	1,210.2	1,177.0	791.7
Order intake	2,460.6	1,853.7	1,870.8	2,061.6	1,309.3
Net sales	2,287.8	1,896.6	1,834.6	1,898.5	1,348.2
of which outside Finland	97.7%	96.4%	97.2%	96.3%	98.1%
Depreciation and writedowns	-73.1	-64.6	-64.2	-54.4	-36.3
Operating profit/loss	86.2	-28.5	-108.3	-16.9	53.8
Capital employed	865.4	825.9	833.5	759.0	550.9
ROI	12%	0%	-12%	-1%	11%
Personnel, end of period[1]	9,255	8,742	7,854	7,461	6,663
of which outside Finland	6,812	6,343	5,324	5,023	4,322

[1] Incl. Operations personnel.

Flexible manufacturing generates cost-efficiency

Wärtsilä's manufacturing operations have been vigorously renewed and restructured over the past few years. The objective has been to bring production volumes in line with demand while achieving a better balance in capacity and the greatest possible cost efficiency. Reorganizing the Group's overall resources and increasing flexibility have received the highest priority. Outsourcing of production has been increased as well.

WÄRTSILÄ'S FLEXIBLE MANUFACTURING SYSTEM – CENTRED AROUND THE RECIPROCATING ENGINE

The cornerstone of Wärtsilä's flexible manufacturing concept is each factory's specialization in a particular type of engine. This involves five product factories as well as a unit in Norway making gearboxes for marine propulsion systems. These specialized factories have total responsibility for their production processes and the expertise these require, as well as for cost efficiency and quality.

At the same time each of these factories also acts as a back-up facility for certain other engine types, offering additional manufacturing capacity for the assembly of these engines and component manufacture as demand dictates. Supplementing the five main factories in Europe are local assembly plants to meet Wärtsilä's market strategies in different markets.

Wärtsilä has also enhanced its manufacturing flexibility through close co-operation with outside subcontractors and suppliers. Materials account for more than 60% of the total cost of an engine. Wärtsilä's suppliers are specialists in their own products and serve several customers. This ensures that they operate more efficiently and gain benefit from economies of scale. At the same time this arrangement reduces Wärtsilä's sensitivity to over or under capacity resulting from fluctuations in demand for Wärtsilä products since its suppliers also share the risk of changes in volume. It also strengthens Wärtsilä's role as an assembler and supplier of complete systems.

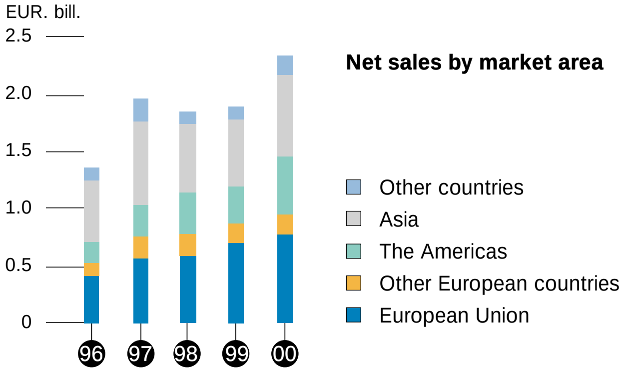
Quality control must be comprehensive and consistent throughout the manufacturing chain. Wärtsilä's systems are certified according to ISO 9000. Quality control requires close and long-term partnership with its suppliers.

MORE EFFICIENT USE OF RESOURCES – MORE SATISFIED CUSTOMERS

The back-up factory concept allows Wärtsilä to balance out peaks in demand among its factories. Thanks to their strong and focused process expertise the factories are able to produce long series as well as a larger number of subassemblies in parallel. Average factory lead time has also been continuously reduced. A good example of the increase in productivity is the Wärtsilä 46 engine, manufactured in

POWER DIVISIONS

EUR mill.	2000	1999	% Change
Net sales	2,287.8	1,896.6	20.6
Operating profit/loss	86.2	-28.5	
% of net sales	3.8	-1.5	
Order intake	2,460.6	1,853.7	32.7
Order book end of period	1,624.2	1,314.9	23.5
MW delivered	4,505	3,663	23,0



Net sales by market area

Turku and Trieste; both these factories have raised production capacity by roughly 50% without the need for major additional investments. The new system also promotes greater customer satisfaction. Focused knowhow increases the quality of the end product and significantly shortens delivery times.

The focused deployment of Wärtsilä's global resources has reduced the need for investments. With purchasing centralized as well, the result is substantial savings in costs.

LICENSE MANUFACTURE

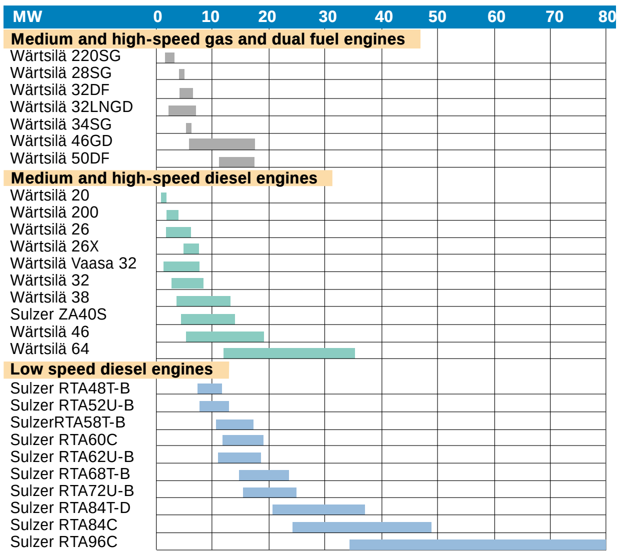
Most of Wärtsilä's Sulzer engines are produced by Wärtsilä's licensees. License manufacturing means that Wärtsilä provides the technology while the licensee is responsible for sales and production. Quality is assured through continuous communication and collaboration. License manufacturing gives Wärtsilä a strong presence in all major shipbuilding markets.

TAKING IT FROM HERE

There is still room for further enhancement of Wärtsilä's flexible manufacturing concept and global way of working, for example by exchanging knowhow among the factories. The most effective way of doing this is job rotation. Wärtsilä has also targeted further substantial reductions in production lead times over the next few years. Wärtsilä has already achieved major cuts in its own production process but the efficiency of subcontracting could be further raised by developing a joint delivery process operating on the Internet.

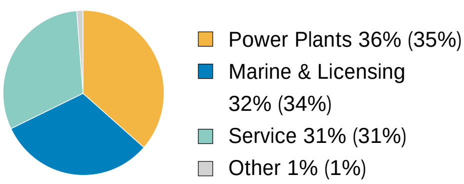
Both Wärtsilä's manufacturing capabilities and its product range were extensively renewed in the 1990s. Additional manufacturing flexibility and process refinements will ensure that production capacity remains sufficient and efficient, and that the need for further investments is minor.

WÄRTSILÄ ENGINE PORTFOLIO

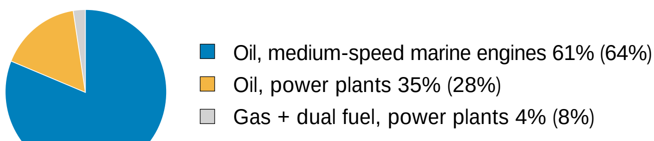


Wärtsilä manufactures competive high-quality diesel and gas engines and related products for power plants and marine propulsion. Wärtsilä exploits its leading-edge production resources and expertise rapidly and flexibly applying the principle of best practices.

Net sales by division 2000



Wärtsilä's fuel breakdown 2000



Based on deliveries (MW)

Marine & Licensing
The Ship Power Supplier

Wärtsilä is the world's leading supplier of marine propulsion systems. Wärtsilä supplies engine room solutions, integrated propulsion systems, main and auxiliary engines and maintenance services for all types of marine vessels and offshore applications.

HIGHLIGHTS OF 2000

- Strategic alliance with John Crane-Lips in September.
- First orders for Wärtsilä and Sulzer engines equipped with Common Rail fuel injection technology.
- Wärtsilä's medium-speed engines continue to hold leading position in Ro-Pax, Ro-Ro and cruise ship segments.
- Italian factory received 19 orders for Sulzer RTA-Series engines with aggregate output of 413 MW.
- The Gdynia shipyard in Poland ordered ten Sulzer 8RTA96C engines, which will be built by Hyundai Heavy Industries Co Ltd in Korea.

Carnival Spirit is the first ship fitted with Wärtsilä´s EnviroEngines. In this photo the cruise ship is on its sea trials at the beginning of the year 2001.

PROSPECTS

Market conditions for Wärtsilä and Sulzer marine engines are expected to remain good. Wärtsilä expects to raise its market share of propulsion systems by means of The Ship Power Supplier concept. Greater environmental concern is expected to assist marketing of the EnviroEngine products. The offshore markets are recovering and further growth is expected in this segment.

MARINE & LICENSING

EUR million	2000	1999	% Change
Net sales	719.7	637.7	12.9
Order intake	878.9	688.8	27.6
Order book end of period	888.1	678.1	31.0
MW delivered			
By Wärtsilä	2,768	2,317	19.5
By licensees	2,990	2,615	14.3

Shipbuilding charts a new course

The top priority of a shipping company is the operational reliability of its fleet. This underlines the importance of top-quality machinery in the choice of engine and the availability later of comprehensive maintenance and spare parts services.

RELIABILITY FROM HIGH-STANDARD AND FULL SERVICE PORTFOLIO EQUIPMENT

Shipowners today look first and foremost for quality and operational reliability. This has resulted in a clear trend towards the purchase of complete ship systems such as turnkey engine room systems. Total system suppliers have the best knowledge of their own components and they also offer a wide range of aftersales services. Another advantage for the owner is the efficiency commanded by large suppliers. A single shipyard builds a few vessels a year whereas the large supplier delivers systems to dozens or perhaps even hundreds of vessels.

Shipyards buying total systems are able to reduce the work required to integrate partial systems and assemblies while at the same time minimizing the risk of component incompatibility. Companies offering total systems are in practice the world's largest suppliers such as Wärtsilä, which is thus able to offer the level of reliability demanded by the major shipbuilding companies that have emerged from recent industrial consolidation. At the same time using system suppliers enables yards increase flexibility and efficiency while reducing sensitivity to fluctuations in demand.

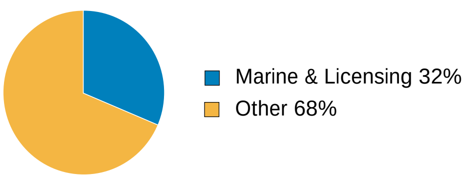
The networks of subcontractors used by shipyards have evolved around the specialization of each yard itself. Shipyards in Asia, however, have expanded into new fields of specialization, which will inevitably require additions to their subcontractor networks. As a total systems supplier, Wärtsilä is well positioned to respond to this need through The Ship Power Supplier concept, which covers the ship's entire propulsion system.

The Internet has opened up new opportunities in customer service. Shipowners nowadays require electronic integration with the shipbuilder and his suppliers to track and trace the course of their project from the moment the order is signed. Documentation on the entire project is available online for all the parties concerned. The same applies to service, where monitoring and service proposals are provided via Internet.

SHIPBUILDING SHIFTS TO ASIA

Up until a few years ago the world's shipbuilding markets were still clearly divided; the competence of cruise ships and Ro-Ro vessels was traditionally in Europe, while general cargo vessels were built in Asia. That division is now disintegrating. Chinese yards are currently building the first AsianRo-Ro vessels and cruise ships are under construction in Japan. Wärtsilä is the engine supplier in both cases.

Net sales share of Power Divisions 2000



Strong demand for cargo ships has filled the orderbooks of Asian shipyards and the volume of new orders is likely to remain good in the next few years. Consequently, high capacity utilization in Asian shipyards is now tending to slow down the flow of new shipbuilding to Asia.

The world's tanker fleet is fairly old. Tankers have traditionally been a strength of Asian yeards. Demand is being further fuelled by the greater attention now being given to vessels carrying hazardous substances following several accidents that have caused environmental pollution. The industry expects tighter legislation with respect to ship design; tankers, for example, to be required to have double hulls. Asian shipyards have traditionally been strong in ship building and vigorous demand is now creating new shipbuilding countries in Asia such as India.

The buoyant situation facing shipbuilders in both Asia and Europe is further strengthened by the high age of most commercial fleets together with increasingly stringent environmental standards. The average age of commercial vessels today is twenty years. Moreover, offshore oil exploration is keeping construction activity in the offshore oil rig sector at a good level. Oil drilling ships are being built in all the main shipbuilding countries.

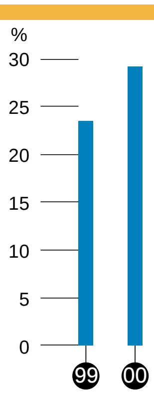
Wärtsilä operates a wide sales and service network in Asia. As the company continues to grow, Wärtsilä will expand its presence still further, broaden its product portfolio and perhaps also increase the amount of subcontracting in Asia.

COMMITMENT TO ENVIRONMENTAL TECHNOLOGY PAYS OFF

The shipbuilding industry has given high priority to environmental issues for years. The most problematical emissions are nitrogen oxides and carbon dioxide. Increasing attention is also being paid to visible smoke. For example ships sailing in Alaskan waters, the world's second most popular cruising area, now face heavy fines if they emit visible smoke. Emissions have been regulated by law. But it is becoming more usual for ports to set their own restrictions on noise, emissions, smoke and the treatment of ship waste.

Wärtsilä offers advanced technology for emissions control and eliminating visible smoke. Wärtsilä engines are also extremely competitive in comparison with alternative technologies such as gas turbines. The high efficiency of Wärtsilä engines coupled with their low fuel consumption results in lower nitrogen oxide and carbon dioxide emissions, while Wärtsilä's Common Rail technology provides the means to eliminate emissions of visible smoke.

Ever tighter environmental restrictions are driving demand for engine rebuilds and therefore represent an important source of growth. Wärtsilä's technical solutions can also be retrofitted to engines in service. The high age of the world's shipping fleet is keeping the volume of new building high, which means that the products of companies committed to developing environmentally progressive technology will also remain in strong demand.



Proportion of engine orders delivered with propulsion system

This graph indicates how many orders for main engines also include a propulsion system and describes how well the Marine & Licensing Division's The Ship Power Supplier concept is being developed.

Total solutions for shipyards and shipowners

The structure of the shipbuilding industry is changing, as is happening in many other sectors. Shipyards and owners are consolidating, attracted by the benefits of higher efficiency and cost savings through large-scale production, with the result that there are now fewer and larger companies operating in the market.

Accompanying this trend is a general desire on the part of shipbuilders to purchase total product and service packages such as complete cabins, galleys and propulsion systems instead of subcontracting individual products and services.

THE SHIP POWER SUPPLIER

In response to this trend Wärtsilä has likewise shifted the emphasis in its business from engine delivery to total systems customized for individual customers. This idea is encapsulated in The Ship Power Supplier concept, launched during 2000. Its basic idea is that in the future Wärtsilä will offer complete marine propulsion systems and their maintenance as a total service. This will mean closer partnership with customers because Wärtsilä will also be responsible for coordinating the operation and maintenance of the systems it supplies throughout their lifecycle.

As a total service provider Wärtsilä needs to understand its customer's business in order to supply the systems ideally suited to each customer's needs. Through reliable and cost-efficient total solutions Wärtsilä's aim is to enhance the performance and profitability of its customers' businesses. The Ship Power Supplier concept is based on leading technological expertise and innovations and it offers systems with the best possible operational efficiency with full component compatibility

WÄRTSILÄ AND JOHN CRANE-LIPS – ADDED VALUE THROUGH TWO INDUSTRY LEADERS

Wärtsilä took a major step in the implementation of The Ship Power Supplier concept in 2000 when it signed an agreement on strategic co-operation in ship propulsion systems with John Crane-Lips. Wärtsilä offers a comprehensive portfolio of marine engines and John Crane-Lips a wide range of marine propellers. Both companies are market leaders in their sectors and therefore have significant complementary strengths.

Under the terms of the agreement Wärtsilä will act as the prime contractor to shipyards and shipbuilders, offering them total marine power systems including design and project management services. The concept is supported by Wärtsilä's global network of 4,000 service professionals in 50 countries, providing global service for all marine systems supplied under the agreement. This marks a major advantage for shipowners, who will now be able to deal with a single global supplier during the lifetime of their vessels.

The Ship Power Supplier concept has been warmly welcomed in the markets. Wärtsilä's competitors are now developing similar operating models but Wärtsilä continues to be the pioneering supplier of total propulsion systems.

SYSTEM DELIVERIES TO BECOME MORE PREVALENT

Technological advances are making ship design ever more complex. Shipyards are choosing to act more as integrators and outsource the manufacture of as many systems as possible to suppliers on a turnkey basis. The pooling of resources under the co-operation agreement between Wärtsilä and John Crane-Lips will enable both companies to

take full advantage of this trend, and substantially improve the growth potential of both companies.

The Ship Power Supplier concept will be expanded in the future to include propulsion control and support systems and in this regard alliances with suitable suppliers are possible.

It is essential for Wärtsilä that the various components of The Ship Power Supplier concept are extremely competitive. The company's aim is to ensure that the concept is the customer's guarantee of unrivalled quality and reliability. This in turn will help Wärtsilä reach its goal to become the leading supplier of total ship power solutions to the marine industry.

A tug boat equipped with Wärtsilä 20 engines in Tampa Bay, Florida.

Power Plants
Power for a Changing World

Wärtsilä delivers gas and oil fired power plant solutions from 1 MW to 300 MW. These power plants are used for baseload, load management, cogeneration and gas compression applications. Deliveries include turnkey construction and long-term maintenance and operation.

HIGHLIGHTS OF 2000

- Growth was strong by all criteria: net sales increased 27%, the order intake was up 54% and the year-end order book was 13% higher than in the previous year.
- Gas power plants developed well at the year end with more than three times more new orders (in MWs) received during the final quarter than in the same period in 1999.
- Demand in Turkey grew rapidly
- Large IPP projects made progress in India.

The Batamindo Industrial Park power plant in Indonesia was built in 1993. The power plant produces energy for the industrial park. The power plant has since been expanded on several occasions as the Park's size and energy needs have increased.

POWER PLANTS

EUR million	2000	1999	% change
Net sales	834.6	655.4	27.3
Order intake	851.0	552.6	54.0
Order book end of period	518.5	460.3	12.6
MW			
MW delivered	1,737	1,320	31.6
HFO power plants	1,574	1,022	54.0
gas power plants	163	298	-45.3
Order intake	1,929	1,373	40.5
gas power plants	232	255	-9.0

PROSPECTS

In the power plant sector growth in demand is forecast to continue in the USA. Good demand is also expected to continue in Turkey, Latin America and India. Deregulation of the electricity markets in Europe is favouring flexible and small-scale power plants. Gas power plants are forecast to increase market share in this market.

Power generation close to consumers

The deregulation of the electricity markets has created dozens of smaller power stations owned by power utilities and industry that generate power close to where it is consumed. Called “decentralized power generation”, this energy production model makes it unnecessary to transmit electricity via the national grid whereas local power stations with surplus capacity can sell the surplus to the grid.

DECENTRALIZATION GENERATES SAVINGS

Since the fuels used by decentralized power plants, gas and oil, are more expensive than coal and nuclear energy, it becomes economically attractive to raise the total efficiency. Decentralized power plants are typically designed to produce both electricity and heat in a cogeneration process that utilizes the heat recovered from electricity generation. This raises the power plant’s total efficiency to levels as high as 90%, far higher than the efficiency obtainable in conventional large power plants. In addition to enhancing their owners’ competitiveness through cost savings, decentralized power plants also have considerably lower greenhouse gas emissions, another major benefit of cogeneration technology. Furthermore, emissions from small power plants disperse into the atmosphere more easily than emissions from large power plants, which reduces or eliminates local emission peaks in the air.

Placing power plants close to consumers practically eliminates grid transmission costs, which can often be a major part of total power costs.

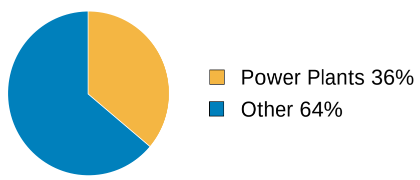
Investment payback times are often considerably shorter for decentralized cogeneration plants compared to large power plants, which is a particularly important consideration in countries that are politically or economically unstable. Shorter payback times also makes it attractive for private companies to build power plants. In areas suffering from a shortage of electricity, power plants installed by local industrial companies ensure an uninterrupted source of power.

WÄRTSILÄ POWER PLANTS – ENERGY WITH HIGH EFFICIENCY

Every year Wärtsilä is engaged in more than a hundred power plant projects around the world, most of them decentralized power generation solutions for industry and municipalities. Wärtsilä’s power plants are modular, which means their lead times are short and they are easy to expand later. Other advantages include high efficiency and the cleanest technology available on the market for burning fossil fuels.

Deregulation and the cost-efficiency of decentralized power generation has boosted demand for cogeneration solutions in the industrialized world. In developing countries, however, a factor of vital importance is ensuring a reliable source of power. Wärtsilä’s power plants are designed to run on a variety of fuels from heavy fuel oil to gas, and also to switch between fuels as required. Heavy fuel oil

Net sales share of Power Divisions 2000



power plants are generally built in countries that do not have a natural gas supply, whereas gas power plants, which have less emissions, are the preferred choice in the industrialized countries, which do have natural gas available. Wärtsilä share of the global heavy fuel oil market is almost 60% and its competitors' are considerably smaller. In gas power plants, Wärtsilä's market share is still rather low, and this sector offers the company considerable growth potential.

Cogeneration of heat and power

In the Kyoto Protocol of the UN Framework Convention on Climate Change the industrialized countries are pledged to reduce emissions of greenhouse gases to below their 1990 levels by the year 2012. This is encouraging the construction of decentralized cogeneration power plants. Many countries have also instituted various charges and taxes aimed at promoting more environmentally friendly forms of power generation.

COGENERATION RECOVERS HEAT FOR USE

Cogeneration, also called combined heat and power, is a method of recovering the heat from primary electricity production and using it in industrial processes, to heat premises or provide hot water for district heating, rather than discharging it as waste heat. Cogeneration is the most energy-efficient means of producing electricity, heat or cooling, as almost 90% of the fuel energy is used. Cogeneration therefore significantly reduces both fuel costs and harmful emissions of carbon dioxide.

Cogeneration offers a wide range of applications not restricted simply to the production of power and heat for industry or municipalities. Hospitals, universities, greenhouse complexes and department stores are all examples of the method's successful application.

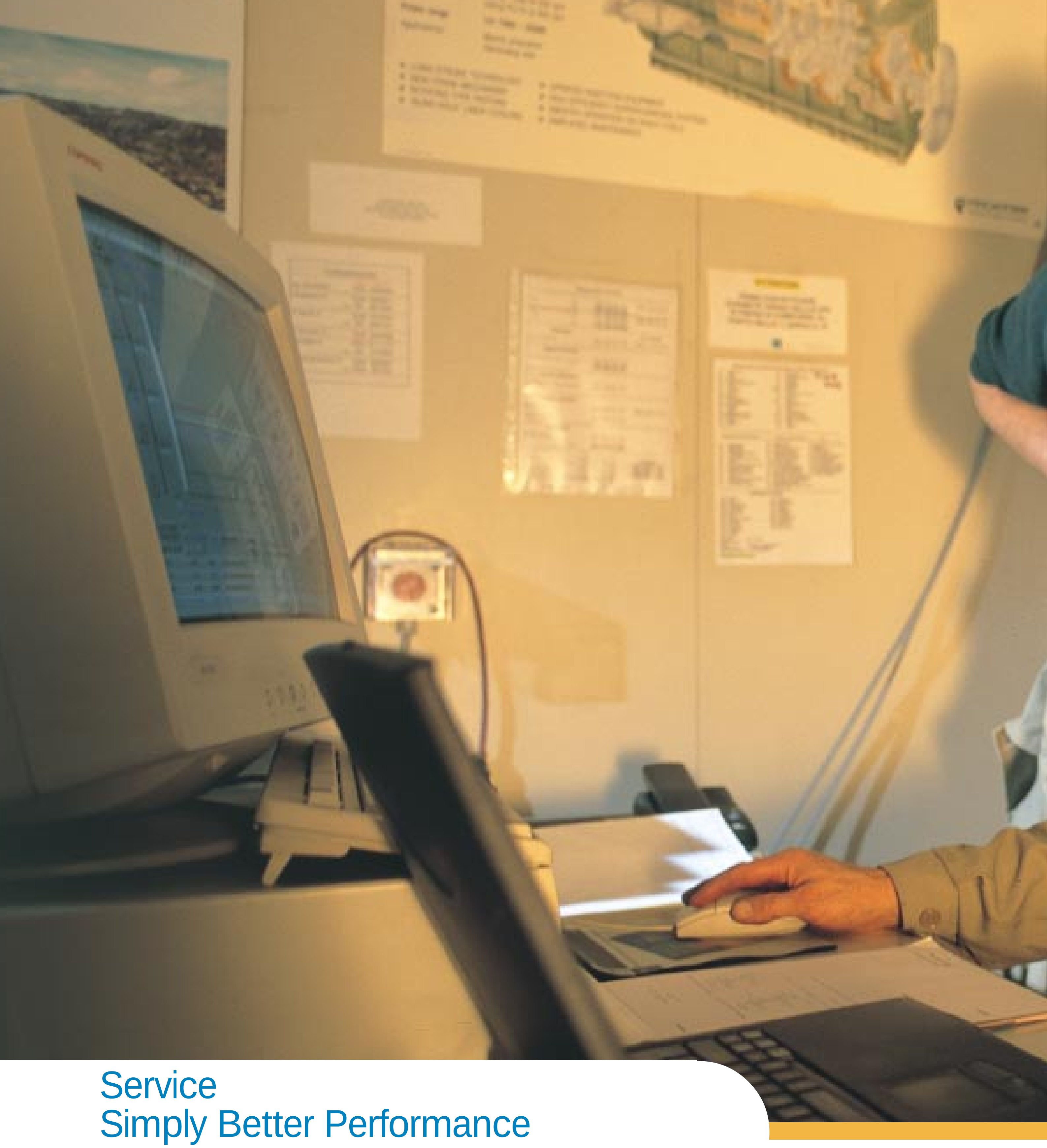
RAPID INCREASE IN POPULARITY

Cogeneration still accounts for less than 10% of installed power production capacity in Europe. A major reason is the structure of the large markets like Germany and France, where centralized nuclear and coal-fired power plants are common. There is no doubt, however, that decentralized cogeneration power plants are becoming increasingly prevalent.

The EU Commission has identified cogeneration as the top priority measure to reduce CO_2 emission in the EU to meet the binding targets set by the Kyoto Protocol. The required investments in cogeneration require annual investments totalling some 5 billion euros in Europe alone.

Other countries will also boost investments in cogeneration in the next few decades in view of the environmental advantages of this technology, the cost savings resulting from its higher efficiency, and its flexibility and reliability.

Wärtsilä has intensively developed power plant solutions based on cogeneration in order to provide environmentally friendly, efficient and flexible alternatives to meet the needs of the changing energy markets. Market trends support Wärtsilä's strategy of specializing in cogeneration power plants suitable for smaller-scale, decentralized operation.



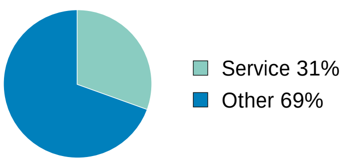
Service
Simply Better Performance

Wärtsilä's service business builds on the Group's global base of installed engines and power plants. With this activity the Group supports its customers throughout the lifecycle of these products. Wärtsilä is close to its customers, through subsidiaries in some 50 countries.

HIGHLIGHTS OF 2000

- Revenues from servicing of low-speed engines increased 22.0 %
- New operation and maintenance agreements for 272 MW
- First orders for smokeless EnviroEngines Wärtsilä's E-business strategy launched in September, first application is Spares-On-Line

Net sales share of Power Divisions 2000



SERVICE

EUR million	2000	1999	% change
Net sales	702.0	589.9	19.0[1]
O&M agreements, MW	1,262	990	27.5
Personnel end of period	4,003	3,391	18.0

[1] comparable growth 11.0%

Service – From reaction to proaction

Changes in the nature of the service business have generated new opportunities for Wärtsilä. Customers are increasingly outsourcing their maintenance and operations services. Power utilities have purchased operation and maintenance services for some time. This trend is beginning to emerge also in the marine industry. Maintenance is focusing on the lifecycle of the product as thinking has shifted from reactive to proactive maintenance meaning more predictive measures and longer-term agreements.

These factors have resulted in the development of new forms of service and the launch of new Internet products. Wärtsilä's service portfolio today covers the whole operation and maintenance chain from installation to scheduled service. Wärtsilä is also a world leader in the development of service applications over Internet.

WÄRTSILÄ OFFERS A VERSATILE RANGE OF SERVICES

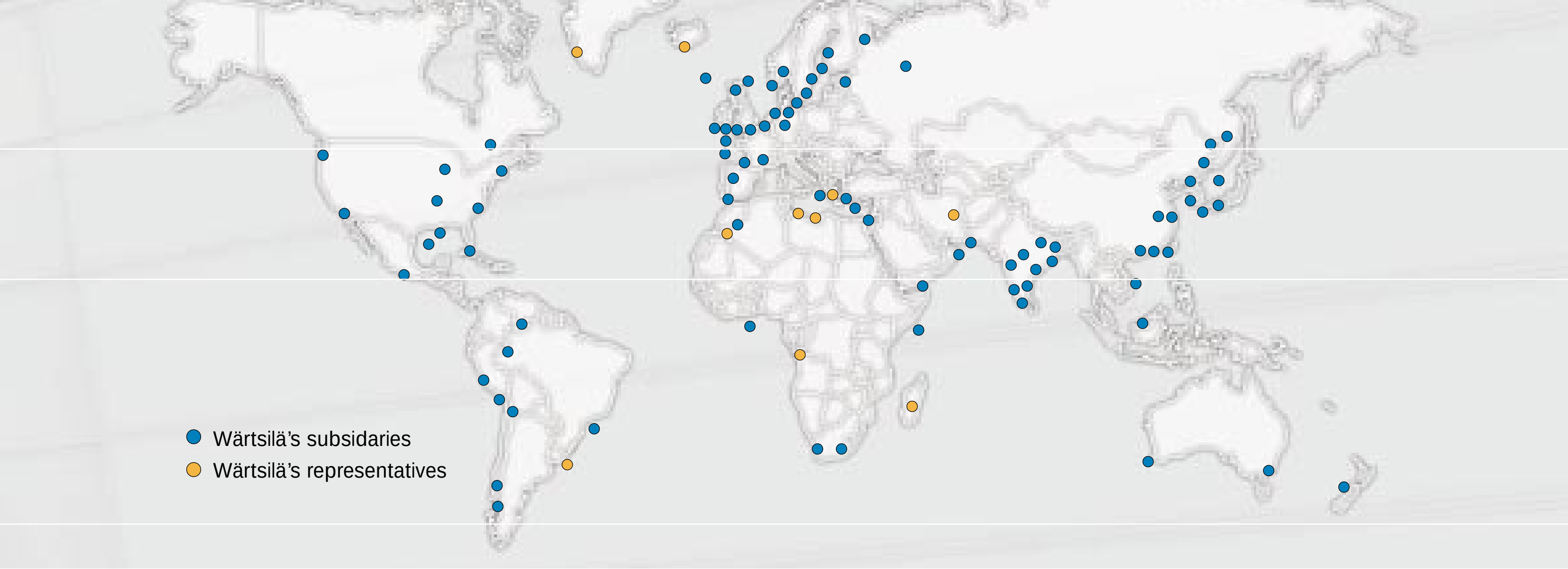
The foundation of Wärtsilä's service function is the company's worldwide engine base. Although Wärtsilä enjoys a long-term relationship with most of its customers, few of them have as yet signed long-term service agreements. Wärtsilä's aim, accordingly, is to increase the volume of its service operations based on agreements. Wärtsilä provides added value through a global service network whose expertise, based on Wärtsilä's own technology and continuous training, offers the most advanced technology for monitoring and predictive maintenance. Wärtsilä also has the best expertise where the manufacture and supply of components and spare parts is concerned.

Spare parts services and scheduled maintenance form the core of the service business, however, demand for other services is rising steadily. One priority area is engine reconditioning and upgrading, by which an old engine performance can be raised to the latest environmental standards and the output can be increased. Another growth area is operations and maintenance (O&M) services for the entire power plant. A typical customer is a production unit owner wishing to be independent of other electricity suppliers but not having expertise in electricity generation. Further sales are generated by extending the scope of operations beyond engine service to include, for example, maintenance of other machinery and equipment, e.g. electrical systems, in diesel power plants.

Another concept under development is predictive maintenance, whereby the engine's performance is continuously monitored and its operation analyzed using equipment integrated in the system to predict future maintenance needs. Defining the optimal maintenance intervals is based on information about the estimated technical life of the components combined with the security

FAKS SYSTEM

Wärtsilä started years ago to develop a knowledge-based software system to support predictive maintenace and fault avoidance on Wärtsilä engines. The system, known as FAKS, is used to monitor engines in power plants and marine power installations, maximizing engine and installation availability and operational performance.



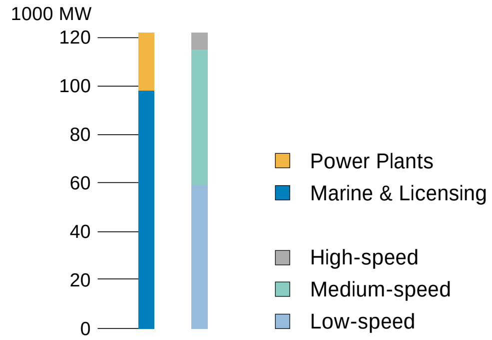
mechanism of the system and the work carried out by the service personnel. This maximizes the engine's operating time, benefiting the customer through higher availability and Wärtsilä through a steady cash flow.

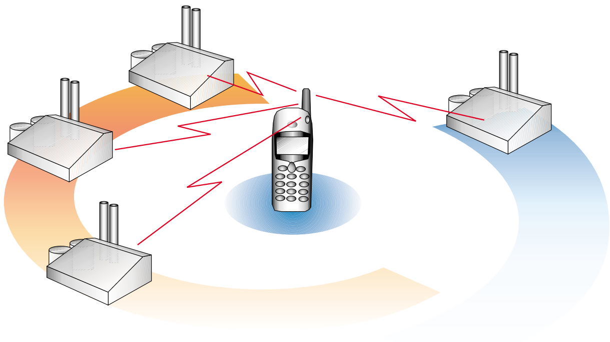
WORKING METHODS ARE CHANGING – CUSTOMERS AND WÄRTSILÄ BOTH STAND TO BENEFIT

Wärtsilä is generating a constant stream of new service solutions that are faster, more reliable and more cost-efficient. Service, in fact, is the focus of Wärtsilä's first e-business application. Wärtsilä already now offers web based on-line services to support the predictive maintenance. These include an information system with photos and videos describing the technical features of the engines and components to support installation, operation and maintenance, as well as software for sending, receiving and analyzing engine running data. Customers can also use the Internet to browse spare part manuals, order spare parts in a simple way and check technical recommendations. The range will be extended later to include in-depth training services.

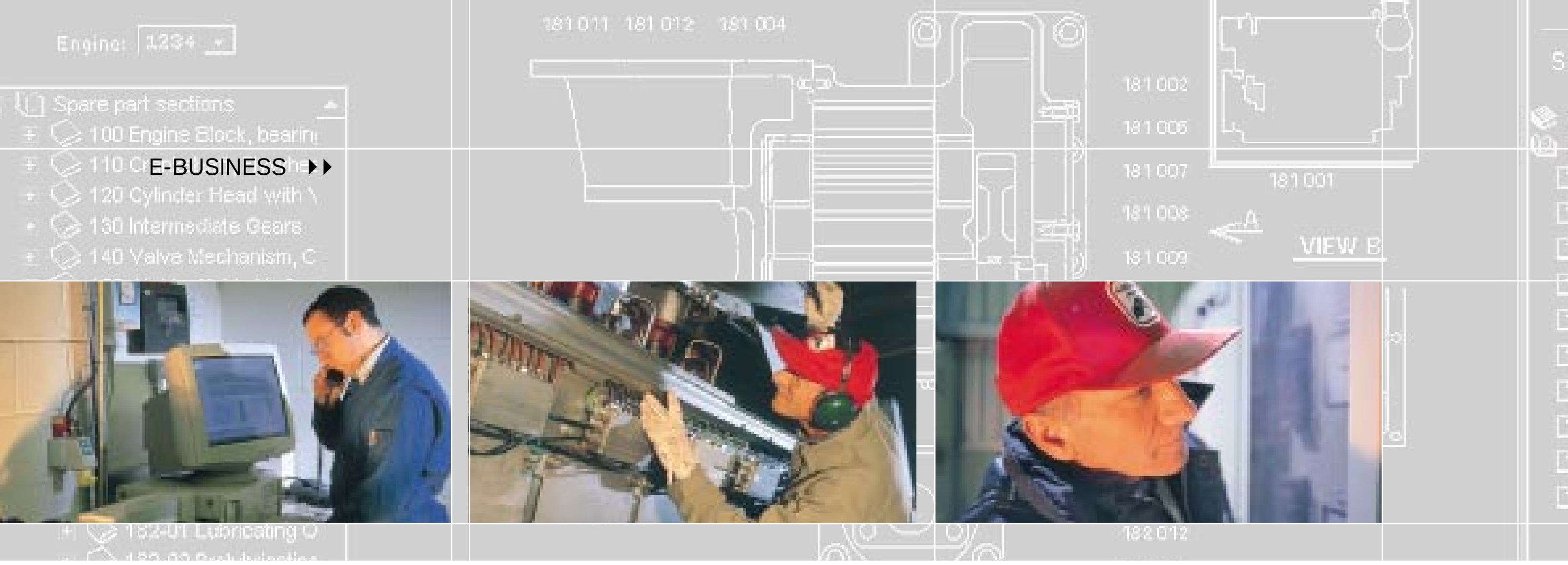
Electronic networks bring services closer to end users. Online services (electronic networks and Internet) are available instantly and are cost effectively independent of place and time. Fast data communications makes it possible to offer a wider range of services and to use service resources more efficiently. The rapid availability of product information also promotes sales. Savings are generated in particular through increased automation.

Wärtsilä's engine base





Wärtsilä has recently developed a WAP-enabled FAKS2I system. Any engine with this system can be monitoried from a WAP phone as long as there is telephone connection. This is a perfect solution for unmanned plants. The system means that the operator can more freely move between plants performing various tasks, without having to remain in front of a computer screen.



E-Business enhances customer service

Companies are increasingly adapting their operations for the Internet environment. Wärtsilä has developed and applied online technology for a number of years and today offers a wide range of online customer applications based on Internet technology.

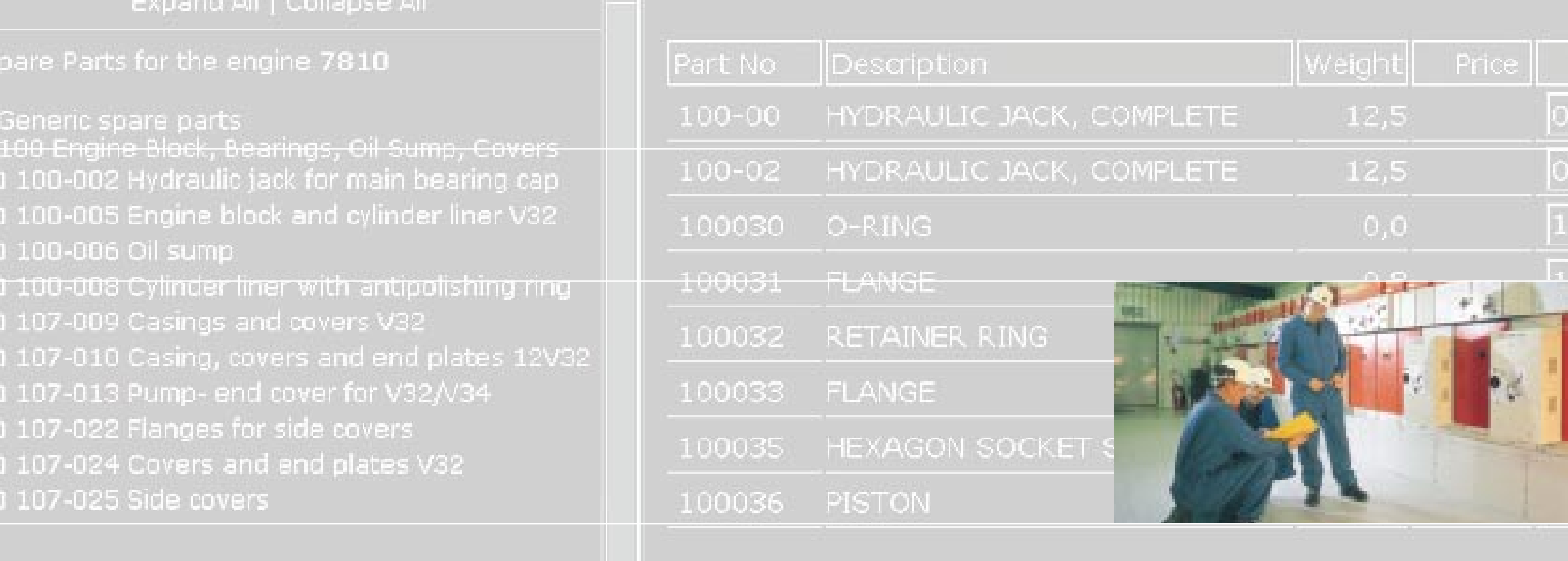
The key principle underlying e-business is to make services available to customers more efficiently and easily. The benefits are most clearly evident is purchasing and sales, and in training and other products related to information. Since Service is based on spare parts sales, it is an obvious application for electronic trading.

PRACTICAL APPLICATIONS

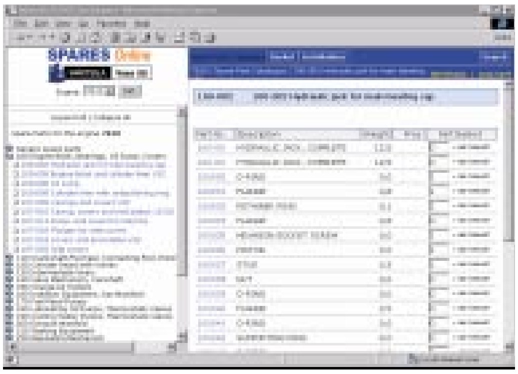
Spares-On-Line is Wärtsilä's first e-business application based purely on the Internet. Spare part orders previously sent by telefax or e-mail can now be made online via Wärtsilä's portal based on comprehensive spare part catalogues available on the Internet. Customers benefit from increased transparency of delivery since information on various stages of the order is constantly available and updated. Furthermore, the availability of information, coupled with faster response, ensures that less capital is tied up in stocks.

Service and maintenance is supported by various browser applications for performing diagnostic analyses on engine operation and providing service recommendations. At the moment this application's server sends information, on a ship for example, via satellite but in the future this information will be sent using WAP and Internet technology. Electronic manuals based on multimedia technology will make it easier for customers to handle their operation and maintenance routines. Wärtsilä is also developing new customer applications in other areas of its operations.

Wärtsilä is exploiting the potential of e-business applications within and between its internal functions. Wärtsilä will further enhance the delivery process by connecting its customers and suppliers online. Training – both internal and for customers – is another future priority which will generate substantial savings by reducing the cost of sending people away for training.



ELDOC2i Web-based user friendly interface contains menus, screen buttons and navigation trees to activate different information modules and links. The ELDOC2*i* spare parts catalogue is linked to Spares-On-Line. Here the engine owner has immediate acces to spare parts information on a spesific engine.



By browsing the list and selecting required spare parts, together with price and quantity information, are automatically collected in a “shopping basket”.

New technologies developed by Wärtsilä reduce environmental impact

The thrust of Wärtsilä's research and development activities has for a long time focused on minimizing environmental impacts. Many of Wärtsilä's customers aim to show leadership in environmental responsibility and the company supports this goal unreservedly. As new technology provides further opportunities to reduce environmental impacts, interest in environmental issues has further increased in recent years.

In Wärtsilä's business environmental pollution is regulated at the international level mainly by the IMO (International Maritime Organization), the World Bank and UNECE. In addition incremental port charges are levied at the national level to reduce emissions by shipping. Wärtsilä's engines fall well below existing environmental restrictions but its goal is to reduce emissions still further using new technology. Wärtsilä's environmentally sound product range gives it a clear competitive edge in markets where environmental issues are being given increasingly high priority.

HIGHER TOTAL EFFICIENCY REDUCES ENVIRONMENTAL IMPACT

The most effective way of reducing the environment impact of engines is to raise their total efficiency and improve emissions reduction methods. Higher total efficiency decreases fuel consumption and hence emissions. Reciprocating engines produce relatively low emissions of carbon dioxide, an important greenhouse gas, due to their high efficiency. This efficiency can be raised further by fine-tuning the processes to ensure that combustion is as complete as possible and that all the engine's components work efficiently. Wärtsilä has expended considerably efforts on raising the efficiency of its engines with good results. Development is a continuous process that is expected to result in further improvements in engine efficiency in the future.

Combined cycle technology is a new method, primarily used in power plants, in which two separate power generation processes are combined to achieve considerable increases in efficiency. The efficiency of conventional single-

Technology

Wärtsilä designs and develops low-speed, medium-speed and high-speed diesel engines, medium-speed and high-speed gas engines, and related systems and technology, applying these to the needs of the market.

R&D in the Wärtsilä Power Divisions focuses on efficiency and environmental soundness, both of which are important for Wärtsilä's marine and power plant customers. Wärtsilä engines fulfill all essential environmental requirements, and new technologies are available to reduce emission levels even further. New fuels are the subject of continuous research in order to guarantee customers low energy prices in all conditions. Wärtsilä has developed its engines to run on a wide range of demanding liquid fuels and also natural gas.

EUR million	2000	1999	1998	1997	1996
R&D costs	79.6	73.5	73.7	82.6	47.3
% of net sales	3.5	2.9	4.4	5.0	10.5

stage electricity generation is roughly 45%, whereas combined cycle technology can raise this to as high as 60%. This technology is employed in Wärtsilä's Vaasa Pilot Power Plant, a facility used to develop and test several new Wärtsilä technologies and exhaust gas cleaning methods as well as the use of the bitumin-based Orimulsion® fuel.

NEW TECHNOLOGY TO REDUCE EMISSIONS

Wärtsilä has developed several new emissions reduction techniques that significantly reduce the formation of sulphur oxides and carbon dioxide in the engine's combustion process.

Common Rail technology, for example, allows the engine's injection pressure and timing to be freely adjusted and controlled. This has resulted in significantly lower NO_x emissions and smoke as well as higher engine efficiency. The improvements are even more noticeable when the engine is run at partial load, which is where the new injection method achieves the greatest difference compared to conventional systems. Since an engine's carbon dioxide emissions are directly proportional to fuel consumption, Common Rail technology is also instrumental in reducing these emissions as well.

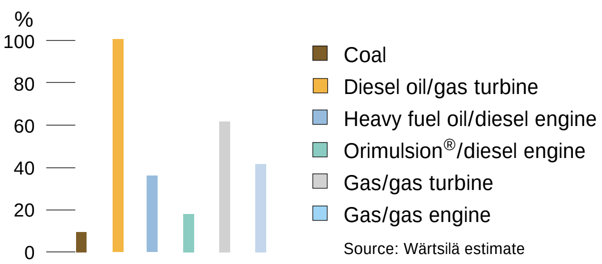
Combining Common Rail technology with Direct Water Injection (DWI) further reduces NO_x emissions. In this method, water is injected directly into the cylinder combustion chamber to reduce the temperature and therefore NO_x formation. Since DWI, like Common Rail, is controlled by computer, the two techniques can be combined to optimize the fuel and water injection parameters for each load situation.

As environmental awareness increases, cruise ship operators and their customers are paying particular attention to the smoke emitted from cruise ship funnels. Wärtsilä has responded to this challenge and in co-operation with Carnival Corporation, the world's leading cruise ship operator, is developing a smokeless diesel-electric propulsion system that combines Common Rail and DWI technologies. This project is called the EnviroEngine.

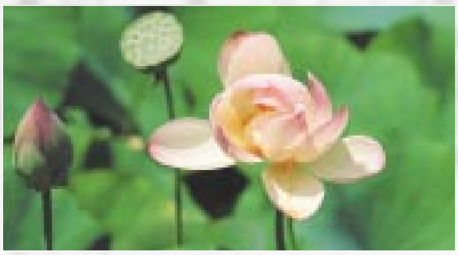
HIGHLIGHTS OF 2000

- Launch of new dual fuel engine, the W50DF (Dual Fuel), which is expected to open up a market for large gas power plants.
- Wärtsilä's emissions-reducing EnviroEngine technology has been well received in the market
- The first such engines, the Sulzer RTA58 RT-flex and Wärtsilä 46 Common Rail, were delivered at the beginning of 2001
- Field trials using Orimulsion® started on W46 and W64 engines.

Relative fuel costs October 2000



Source: Wärtsilä estimate



The purpose of the EnviroEngine project is to develop an engine that, besides reducing nitrogen oxide and carbon dioxide emissions, is also entirely smoke-free at all loads and outputs. The project has proceeded well and the first engines have been delivered in the first half of 2001. This technology can also be applied to power plant engines as well as retrofitted to engines in service.

ALTERNATIVE FUELS

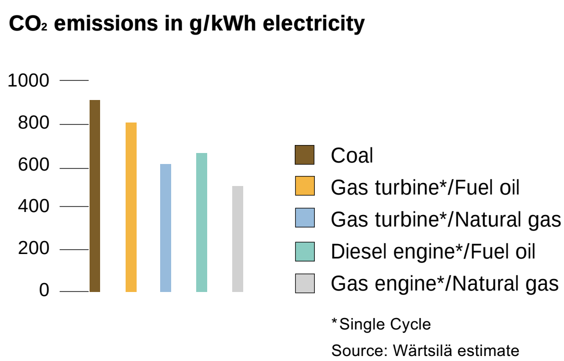
Wärtsilä's goal is to offer products suitable for multi-fuel use and that achieve the highest possible efficiency and lowest emissions with all fuels. In the case of engines running on heavy fuel oil, emissions reduction concentrates on the methods described above.

Current development is focusing on gas engines and Wärtsilä offers a full range of such engines for various applications. Gas engines are ideally suited to electricity generation and heat production in municipalities. Wärtsilä has supplied a large number of decentralized power plants based on gas engines to Denmark. Wärtsilä's portfolio also includes gas compressors for various industrial applications.

Wärtsilä is actively investigating the feasibility of alternative fuels. Since fuel costs are substantially higher than the initial cost of the engine over its 20-25 year service life, the choice of fuel is of critical importance to customers.

Wärtsilä's Wasa Pilot Power Plant runs on Orimulsion®, an emulsion of bitumen dispersed in fresh water. The advantage of Orimulsion over heavy fuel oil is its price, which is both lower and more stable. Although Orimulsion has a higher sulphur content than fuel oil, it is particularly suitable for running power plants with advanced desulphurization and de-NO_x systems. Orimulsion is expected to open up new worldwide markets for Wärtsilä's technology.

As global weather patterns are changing, interest in the application of non-CO_2 fuels is increasing. Particularly interesting in this respect is hydrogen, which is an extremely pure fuel since its combustion reaction is fast. However, the availability of hydrogen, i.e. its separation from water, for large-scale power generation purposes is still an open question at the current time.



It appears likely that hydrogen will not be used as a fuel for several decades. Nonetheless, the strong increase in atmospheric changes could push legislation and public opinion towards favouring a more rapid introduction of hydrogen. Since the diesel engine can also be run on hydrogen with very small modifications, Wärtsilä is well prepared for the age of hydrogen fuel once the problems associated with its production and distribution are resolved.

TOWARDS ISO 14001 CERTIFIED ENVIRONMENTAL CERTIFICATION

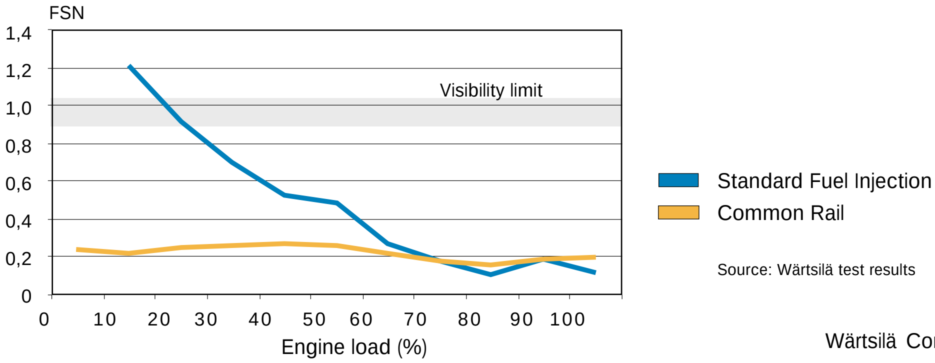
Wärtsilä aims to promote continuous improvement in all its operations. The tool for reaching this goal is the Wärtsilä Operative Excellence System for developing quality, environmental management, and occupational health and safety issues. This system is currently being implemented in the Power Divisions.

Work continued in Wärtsilä's subsidiaries during the year in preparation for adopting a new environmental management system. Operating procedures were defined and training was given to personnel. An outside classification society performed the first pre-audits of Wärtsilä's environmental system.

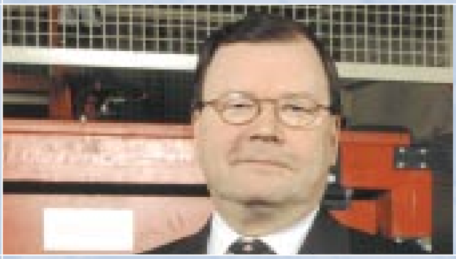
Colombia Energy Operators S.A. was the first of Wärtsilä's business units to gain ISO 14001 environmental certification. Wärtsilä's subsidiaries aim to receive ISO 14001 environmental certificates by the end of 2001.

Wärtsilä also further developed its environmental reporting function during the year by defining the scope and content of Wärtsilä's environmental report. Wärtsilä plans to release its first environmental report during 2001.

Common Rail compared to standard Fuel Injection Equipment



Source: Wärtsilä test results



Imatra Steel's President, Kari Tähtinen

Imatra Steel

Demand for special engineering steels was good during 2000 and improved further during the autumn. Steel production worldwide reached an all-time high during the year, totalling over 820 million tons. However, prices of special steel bars did not match the favourable trend in demand, while prices of raw materials were notably higher than in the previous year. An increase in energy and freight costs was evident as well.

Truck production reached new record levels in Europe, rising about 10% on the previous year. Production of passenger cars remained largely unchanged but the number of new registrations in Europe declined at the end of the year. Demand was also good among engineering companies and wholesalers of engineering steels. Growth in stocks became visible in various parts of the supply chain at the year end.

HIGHLIGHTS OF 2000

Imatra Steel's net sales in 2000 totalled EUR 194.1 (173.0) million, 12% up on the previous year. All units reported a clear increase in delivery volumes during the year with deliveries by the Imatra Steel Works reaching a new record. Result development during the year was good. The profit before extraordinary items doubled on the previous year to EUR 14.5 (7.1) million.

Special focus was placed on developing partnerships with customers, on raising the quality of workmanship and products, and on the process of continuous learning. The first further qualifications in base metal industry in Finland were taken at the Imatra Steel Works during the year. Supply chain development focused on issues related to information flow and material flow. Deliveries of cut-to-weight and cut-to-length forging blanks to forging customers started in Great Britain.

The Kilsta Forge enhanced its finishing processes for truck crankshafts and front axle beams. The Billnäs Spring Works brought a second stabilizer bar hardening machine into operation to handle the increasing volume of stabilizer bars. An inspection and finishing line for bright bars was completed at the Imatra Steel Works.

The decision was made in January 2001 to modernize and upgrade the base metallurgical process line at the Imatra Steel Works. The EUR 21 million programme, scheduled for implementation between 2001 and 2003, calls for upgrading of the continuous casting line, the bloom furnace and the heavy section mill. The aim is to further enhance product quality and safeguard the cost efficiency of Imatra's core metallurgical operations. The first stage will involve replacing the bar rolling and cutting machinery in the heavy section mill.

Imatra Steel continued maintenance and development of its quality and environmental systems in line with its certified QS 9000 quality system and ISO 14001 environmental system. The dust recovered from the smelter's scrubber at the Imatra Steel Works was bagged and delivered to Germany for reuse of zinc on a regular basis during the year.

PROSPECTS FOR 2001

For Imatra Steel, the year 2001 has begun amidst signs of uncertainty in the markets. Production of trucks and cars is forecast to begin declining in Europe during the spring. Imatra Steel is expected to report slightly lower net sales and profits in 2001.

IMATRA STEEL - ENGINEERING STEELS FOR DEMANDING CUSTOMERS

Imatra Steel is Wärtsilä's special engineering steels company. Imatra Steel produces round, square and flat special bars, forged engine and front axle components, leaf springs and tubular stabilizer bars. The company's customers are European automotive and mechanical engineering companies.

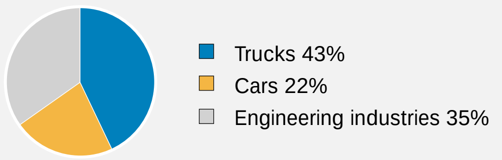
HIGHLIGHTS OF 2000

- All units reported distinctly higher volumes during the year
- Deliveries from Imatra Steel Works reached a new annual record
- Operating profit improved and was EUR 17.4 (10.8) million
- The decision was taken to modernize metallurgical process line of the Imatra works.

FIVE YEARS IN FIGURES IMATRA STEEL

EUR mill.	2000	1999	1998	1997	1996
Net sales	194.1	173.0	195.1	174.7	155.5
of which outside Finland	84.2%	84.4%	83.4%	82.8%	82.0%
Depreciation and writedowns	-11.8	-12.1	-12.0	-10.7	-9.1
Operating profit	17.4	10.8	20.8	20.1	17.1
Capital employed	113.9	109.1	107.1	111.1	104.7
ROI	16%	10%	20%	18%	17%
Personnel, end of period	1.280	1.235	1.274	1.176	1.113
of which outside Finland	372	371	390	325	313

Net sales by market segment 2000



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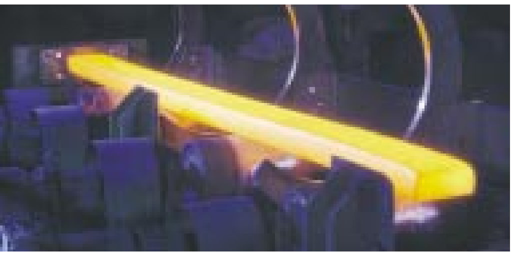
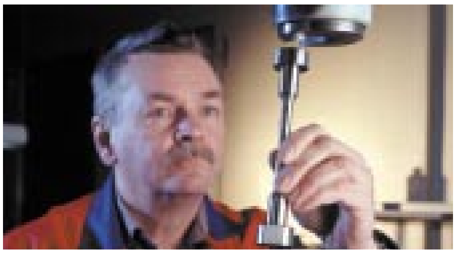




Holdings

Wärtsilä owns 16.4% of Assa Abloy's shares and 46.7% of Sanitec's shares. Wärtsilä plays an active ownership role in both companies and is represented on their boards of directors. Wärtsilä has gradually reduced its holdings in these companies and this trend will continue. The capital released will be used to strengthen Wärtsilä's financial structure, to finance acquisitions and other development of the Power Divisons. It will also allow the company to continue distribution of extra dividends to shareholders or to repurchase its own shares.

SANITEC

Sanitec is an international group that designs, manufactures and markets bath and shower products, bathroom ceramics and vacuum sewage systems. Sanitec's head office is located in Finland and the company is listed at the Helsinki Exchanges since July 1999. Wärtsilä's share (46.7%) of Sanitec's market capitalization on 31 December 2000 was EUR 247.2 million. The book value of the shares in Wärtsilä's balance sheet is EUR 165.6 million.

Sanitec's main market area is Europe. It also has production plants and representative offices in more than 30 countries all over the world. 96% of its net sales are derived from countries outside Finland.

In the bath and shower business, Sanitec has an overall No 1 and No 2 position in all its main markets. It also is a leading company in the European bathroom ceramics business, position that was further strengthened after the acquisition of UK Twyford Bathrooms in January 2001. Twyford Bathrooms is a leading manufacturer of bathroom ceramics in the UK trading under the internationally recognised brand names Twyford, Doulton and Royal Doulton. 87% of sales are made to the UK market, with the remainder in export markets such as the Middle East, Africa and Asia/Pacific.

In the area of vacuum sewage systems, Sanitec is a global leader.

In 2000, Sanitec's net sales were EUR 877.3 (630.0) million, and operating profit EUR 75.8 (80.6) million. The Group employed about 8,100 people at the end of the period.

In 2001, Sanitec's organic growth is foreseen to continue at the good level of previous years. Net sales is estimated to increase to over EUR 1.000 million and the operating profit margin to improve clearly on year 2000.

ASSA ABLOY

Assa Abloy is the world's largest lock company. The company is listed on the Stockholm Stock Exchange. Wärtsilä's share (16.4%) of Assa Abloy's market capitalization on 31 December 2000 was EUR 1,207.9 million. The book value of the holding is EUR 140.0 million.

Assa Abloy's share of this highly fragmented world market is around 10 percent. The Group has its origins in the Nordic countries where it enjoys leading market positions. Thanks to organic growth and an ambitious acquisition strategy, notably the recent acquisition of Yale Intruder Security, the Group now enjoys leading market positions in France, the Netherlands, the UK, North America, Brazil, South Africa and China. Assa Abloy is also the leading player in Australia and South East Asia through the 1999 purchase of Lockwood.

In the fast-growing area of electromechanical locks, the Group leads the world in product development and market share, and continues to hold the leading world position in

hotel security through its subsidiaries VingCard, Elsafe and Timelox.

As the world's leading lock manufacturer, Assa Abloy is dedicated to the development of locks and lock-related products. These range from conventional mechanical locks and door hardware through high-security masterkey systems to state-of-the-art electromechanical locks, electronic ID readers and key cards which contribute to new standards of security throughout the world. Because the lock business is Assa Abloy's only business, all companies within the Group can benefit from a rich transfer of know-how and from extensive benchmarking activities designed to spread best practices and promote excellence.

In 2000 the net sales of Assa Abloy were EUR 1.7 billion (1.2) and operating profit EUR 202.6 (135.9) million. The Group employs approximately 20,000 people.

Assa Abloy's net sales are forecast to be around EUR 2,2 billion in 2001. There are opportunities to improve margins in both old and recently acquired companies.

WÄRTSILÄ REAL ESTATE

Wärtsilä Real Estate is responsible for developing, selling, leasing and maintaining the property assets owned by the parent company. Most of these properties are unrelated to the company's operations. Wärtsilä Real Estate also provides professional services in operations concerning the property assets used by the Group.

The real estate market in Finland remained buoyant throughout the year 2000 with rents for business premises in the Helsinki metropolitan area rising by about 10%. Property demand and the rise in rents levelled off during the autumn but at the end of the year there were once again clear signs of a further surge in demand.

Wärtsilä Real Estate's largest property development project is the Arabianranta art and media industry centre. During 2000 the construction of externally financed residential and business premises totalling 35,600 floor-m^2 was started on land owned by the company. Wärtsilä still owns about 86,000 floor-m^2 of building rights for office premises on this site.

Wärtsilä Real Estate sold properties and shares in housing companies worth altogether EUR 29.5 (19.9) million in 2000, which yielded a profit of EUR 10.1 (7.1) million. An additional EUR 3.7 (2.8) million in revaluations of sold properties were reversed. These divestments reduced rental income to EUR 6.0 (6.7) million. However, the occupancy rate remained unchanged, standing at 90% at the close of the period. The portfolio's yield (net operating income / book value) remained unchanged at 8.5%.

At the end of the year the properties managed by Wärtsilä Real Estate, excluding the properties used by Wärtsilä itself, had a total book value of EUR 27.5 (49.8) million.

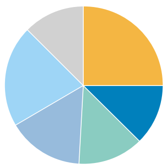
Shares and shareholders

SHARE INFORMATION

	Series A	Series B
Share lot	100	100
Votes/share	10	1
Taxation		
EUR [1]	13.51	13.69
FIM [1]	80.33	81.40

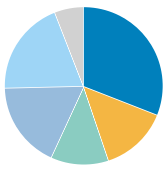
[1] Value per share in 2000.

Ownership structure according to shares



- Private corporations 25.2%
- Banks and insurance co. 12.3%
- Public sector entities 13.8%
- Non-profit organizations 15.1%
- Households 21.4%
- Outside Finland or nominee register 12.1%

Ownership structure according to votes



- Private corporations 30.9%
- Banks and insurance co. 14.0%
- Public sector entities 11.7%
- Non-profit organizations 17.9%
- Households 19.3%
- Outside Finland or nominee register 6.0%

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

Wärtsilä Corporation's share capital is minimum EUR 87.5 million and maximum EUR 350 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 189,708,253. Series A shares carry 10 votes and Series B shares 1 vote at general shareholders' meetings. The nominal value of the shares are EUR 3.50. All shares carry equal dividend rights. There are altogether 54,202,358 shares in all: 13,935,412 A shares and 40,266,946 B shares.

CONVERTIBLE SUBORDINATED DEBENTURES AND BONDS WITH WARRANTS FOR MANAGEMENT

In March 1994 the Board floated two convertible capital notes issues, each of the same amount and together totalling FIM 700 million (EUR 117.7 million). One is convertible into Series A and Series B shares, and the other into Series B shares. Altogether 8,744 Series A shares and 14,088 Series B shares had been converted by 31 December 2000, representing EUR 0.5 million (FIM 3.1 million) of the loan principal. The calculated conversion rate was EUR 19.11 per share.

The company also issued bonds with warrants for a nominal value of FIM 180,000 (EUR 30,274) to company executives based on the authorization of the 1996 AGM. The right to subscribe for shares began on 1 September 1996 and ends on 2 May 2003, when the principal will be repaid. The subscription price is EUR 13.49 per share. The bonds were subscribed by 34 members of corporate and division management at that time. Altogether 9,600 Series B shares have been subscribed, based on this issue (0.02% of the shares and 0.005% of the voting rights). The Group had no other personnel incentive schemes based on share derivatives during the year 2000.

Conversions during 2000 raised Wärtsilä Group's share capital by EUR 7,392. The number of A shares rose by 308 and the number of B shares by 1,804, making a total of 2,112 shares and 4,884 votes.

MANAGEMENT HOLDINGS

The members of the Board of Directors, the CEO and the corporations under their control own altogether 1,375,452 Wärtsilä Corporation shares, which represent 2.54% of the stock and 3.33% of the voting rights. Furthermore, the members of the Board of Directors and the corporations under their control own convertible subordinated debentures totalling FIM 20,390,000 (EUR 3,429,352), i.e. 2.92% of the principal. If the conversion rights were exercised in full, their aggregate holding would increase by 179,432 shares, representing 0.33% of the current stock and 0.46% of the voting rights.

Based on the 1996 bond with warrants, one member of the Board of Directors owns 41 warrants which, if exchanged for shares, would increase his shareholding by at most 49,200 shares, i.e. by 0.09% of the company's current stock and 0.03% of the voting rights.

PROPOSALS TO THE ANNUAL GENERAL MEETING

The Board of Directors proposes to the Annual General Meeting on 20 March 2001 that a normal dividend of EUR

0.65 (FIM 3.86) per share and an extra dividend of EUR 2.00 (FIM 11.89) per share be distributed on the financial year ended 31 December 2000.

With respect to the extra dividend the Board proposes that the conversion ratio of the 1994 convertible subordinated debentures and the subscription price of the Wärtsilä B-shares subscribable under the warrants attached to the 1996 bond with warrants be changed corresponding to the amount of the extra dividend.

The Board also proposes that warrants be issued to key personnel of Wärtsilä Group. The Board proposes that altogether 1,500,000 warrants be issued allowing subscription of the same number of Wärtsilä Corporation B shares. The shares subscribable under the warrants will represent 2.7% of the share capital and 0.8% of the votes. The purpose of the share option programme is to encourage key employees to work on a long-term basis in order to raise shareholder value and to increase their commitment to the company.

Furthermore, the Board proposes that the AGM authorize the Board for one year to repurchase the company's own shares in public trading on the Helsinki Exchanges at the prevailing price, and other than in proportion to the holdings of the shareholders. At most 696,770 A shares and at most 2,013,347 B shares may be repurchased, representing at most 5% of all the shares and votes. This authorization also includes the right to dispose of the company's shares repurchased in this manner at a price at least equal to the share price prevailing on the Helsinki Exchanges, disapplying shareholders' pre-emptive rights of subscription. At the same time the Board proposes that the authorization granted by the AGM on 23 March 2000 to repurchase and dispose of the company's own shares be revoked.

In view of amendments to the Finnish Companies Act the Board proposes that the period of notification of general meetings mentioned in §10 of the company's Articles of Association be amended to comply with the new regulations.

Formulas for calculating the financial ratios are given on page 76.

Wärtsilä Corporation, domicile Helsinki, the present company name was entered in the Trade Register on 22 September 2000. Wärtsilä shares were transferred to the book-entry securities system in February 1993.

The share prices before 1999 have been converted into euro using the official exchange rate: 1 euro = FIM 5.94573.

DILUTION EFFECTS OF THE CONVERTIBLE SUBORDINATED DEBENTURES AND BONDS WITH WARRANTS ON THE SHARE CAPITAL

	Number of shares	%	Share capital EUR	Votes %	Conversion/Subscription terms Price	Time
Conv. subord. debentures	+6,132,456	+11.3	+21,463,596	+11.1	19.11	2.1.-30.11. annually
Bonds with warrants	+206,400	+0.4	+722,400	+0.11	13.49	2.1.-30.11. until 2.5.2003
Total	+6,338,856	+11.7	+22,185,996	+11.21		

Number of Wärtsilä shares 60,541,214 and number of votes 213,615,374, if all conversion and subscribtion rights are exercised.

CHANGE IN THE SHARE CAPITAL

Number of	Series A Shares	%	Votes	%	Series B Shares	%	Votes	%	Total Shares	Votes
Shares/votes 31.12.1999	13,935,104	25.7	139,351,040	77.6	40,265,142	74.3	40,265,142	22.4	54,200,246	179,616,182
debentures converted	308		3,080		1,804		1,804		2,112	4,884
bonds with warrants subscribed	-		-		-		-		-	-
Total 31.12.2000	13,935,412	25.7	139,354,120	77.6	40,266,946	74.3	40,266,946	22.4	54,202,358	179,621,066

Wärtsilä company and share codes:

Helsinki Exchanges	WRT
Series A	WRTAV
Series B	WRTBV

Reuters´ RIC	
Series A	WRTAV.HE
Series B	WRTBV.HE

Bloomberg	
Series A	WRTAV FH
Series B	WRTBV FH

WÄRTSILÄ SHARES ON THE HELSINKI EXCHANGES

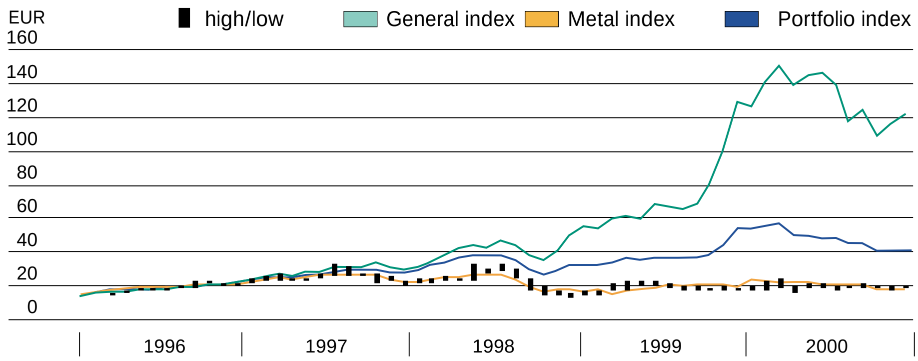
		2000	1999	1998	1997	1996
Trading volume	EUR mill.					
Series A		27.4	17.3	44.8	65.2	56.3
Series B		332.9	310.0	474.1	403.4	256.5
Total		360.3	327.3	518.9	468.6	312.8
Number traded	1,000					
Series A		1,359	924	2,018	2,611	2,976
Series B		16,636	16,825	20,748	16,255	13,980
Total		17,995	17,749	22,766	18,866	16,956
Stock turnover	%					
Series A		9.8	6.6	14.5	18.8	10.7
Series B		41.3	41.8	51.7	40.6	53.7
Total		33.2	32.7	42.1	35.0	31.5
Average share price	EUR					
Series A		20.14	18.69	22.19	24.95	18.92
Series B		20.01	18.43	22.86	24.86	18.33
Trading low/high	EUR					
Series A	low	16.30	14.60	12.61	20.18	14.46
	high	25.00	23.75	32.96	32.96	23.46
Series B	low	17.00	13.71	12.78	19.88	14.30
	high	24.30	24.00	33.30	32.80	23.46
Share price at year end	EUR					
Series A		19.50	18.20	15.09	21.70	21.78
Series B		19.70	18.50	14.80	21.53	21.70
Year end market capitalization	EUR mill.	1,065	999	806	1,163	1,166

KEY FIGURES FOR WÄRTSILÄ SHARES

		2000	1999	1998	1997	1996
Earnings per share (EPS)	EUR	4.20	2.43	0.45	0.92	1.90
Diluted earnings per share	EUR	3.87				
Book value of equity/share	EUR	14.59	13.09	11.60	12.11	11.44
Dividend/share	EUR	2.65[1]	2.85	1.55	0.46	0.71
Dividend/earnings	%	63.1[1]	117.3	344.4	50.4	37.5
Dividend yield	%					
Series A		13.61[1]	15.66	10.27	2.12	3.30
Series B		13.55[1]	15.41	10.47	2.16	3.31
Price per earnings (P/E)						
Series A		4.6	7.5	36.4	23.8	11.4
Series B		4.7	7.6	35.7	23.3	11.4
Price to book value (P/BV)						
Series A		1.3	1.4	1.3	1.8	1.8
Series B		1.3	1.4	1.2	1.8	1.9
Adjusted number of shares 1,000						
end of financial year		54,202	54,200	54,199	53,901	53,868
on average		54,200	54,199	54,050	53,868	53,868

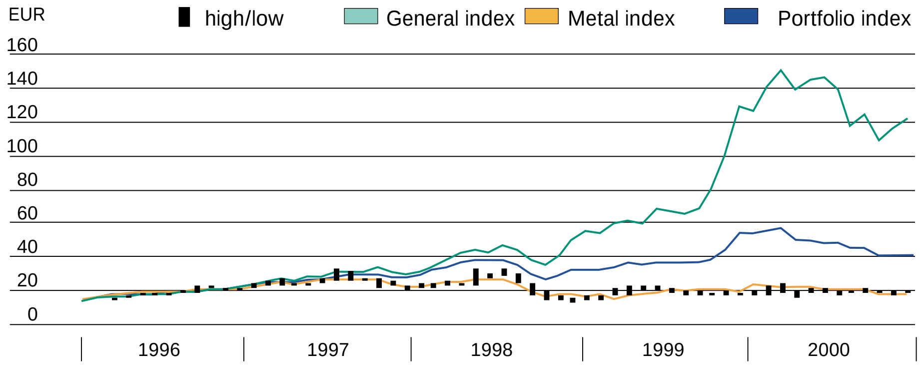
[1] Proposal by the Board of Directors.

SERIES A QUOTATIONS



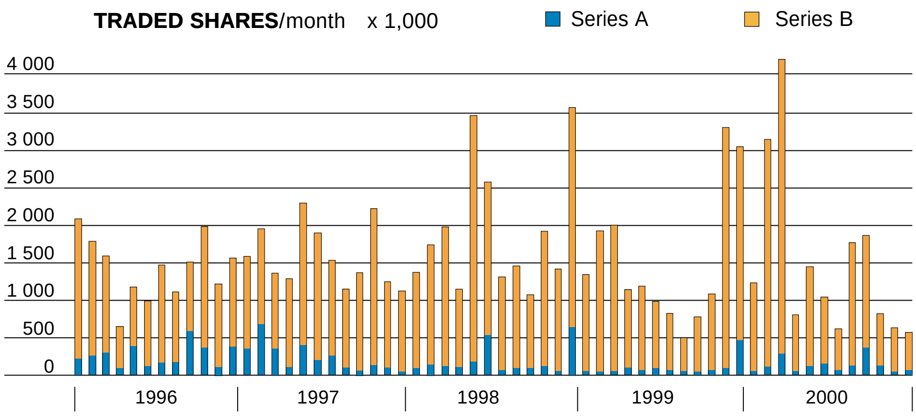
The adjacent diagrams describe share price trends from 2 January 1996 to 29 December 2000.

SERIES B QUOTATIONS



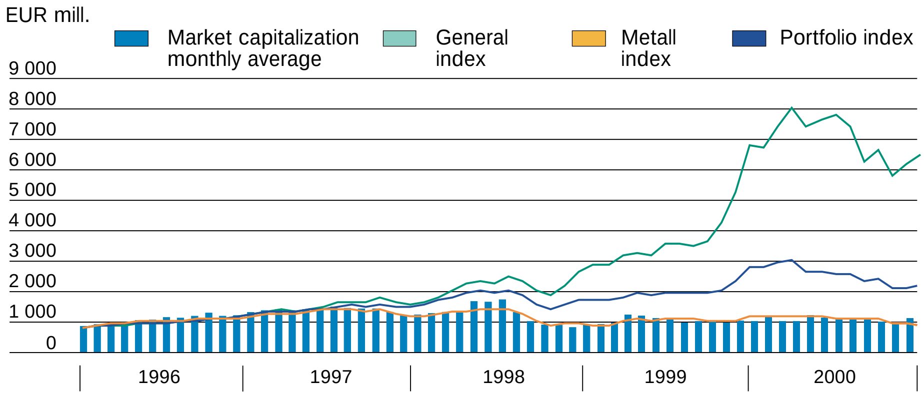
HEX all-share index, portfolio index and metal index have been indexed to the Wärtsilä share trends.

TRADED SHARES/month x 1,000



Since 4 January 1999 all shares on the Helsinki Exchanges have been quoted in euro.

MARKET CAPITALIZATION



Approximately 4.7 million Wärtsilä shares, i.e. 8.7% of all Wärtsilä shares, were traded on the SEAQ system in London during 2000.

The adjacent tables are based on the book-entry accounts at 29 December 2000.

Wärtsilä has 17,871 registered shareholders.

	MAJOR SHAREHOLDERS	NO.OF SHARES 1,000 Series A		Series B		% of votes	% of shares
1	Fiskars Corporation		3,636		5,806	23.5	17.4
2	Sampo-Leonia Insurance Company plc	338		0			
	Industrial Insurance Company Ltd	570		1,000			
	Sampo Life Insurance Company Limited	267		558			
	Sampo Enterprise Insurance Company Ltd	40	1,215	0	1,558	7.6	5.1
3	Varma-Sampo Mutual Pension Insurance Company		675		761	4.2	2.6
4	Svenska Litteratursällskapet		614		21	3.4	1.2
5	Agrofin Oy Ab		416		678	2.7	2.0
6	Merita Bank plc		428		0	2.4	0.8
7	Tapiola General Mutual Insurance Co.	185		338			
	Tapiola Mutual Pension Insurance Co.	80		415			
	Tapiola Mutual Life Insurance Co.	20		168			
	Tapiola Corporate Life Insurance Co.	6	291	78	999	2.2	2.4
8	Ilmarinen Mutual Pension Insurance Co.		230		1,553	2.1	3.3
9	Brita Maria Renlund Foundation		228		330	1.5	1.0
10	The Local Government Pensions Institution		146		926	1.3	2.0
11	Association of Finnish Metal Industries		202		337	1.3	1.0
12	Signe and Ane Gyllenberg Foundation		201		142	1.2	0.6
13	The Social Insurance Institution		165		377	1.1	1.0
14	Sigrid Juselius Foundation		181		181	1.1	0.7
15	Livränteanstalten Hereditas		104		298	0.7	0.7
15	largest. total		8,732		13,967	56.3	41.8

DIVISION OF SHARES			**Series A**					**Series B**
Number of shares	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1 -100	5,857	57.4	240,954	1.7	5,179	30.6	277,716	0.7
101-1,000	3,713	36.3	1,175,772	8.4	9,298	54.8	3,323,163	8.3
1,001-10,000	557	5.5	1,361,059	9.8	2,213	13.0	5,860,716	14.6
10,001-100,000	58	0.6	1,747,701	12.5	244	1.4	6,617,575	16.4
100,001-1,000,000	20	0.2	5,751,766	41.3	37	0.2	10,511,732	26.1
1,000,001-	1	0.0	3,635,724	26.1	4	0.0	13,629,072	33.8
Not transferred	–	–	22,436	0.2	–	–	46,972	0.1
	10,206	100	13,935,412	100	16,975	100	40,266,946	100

OWNERSHIP STRUCTURE		**Series A**		**Series B**		**Total**
% of	shareholders	shares	shareholders	shares	votes	shares
Private corporations	2.1	8.6	3.3	16.6	30.9	25.2
Public corporations	–	–	–	–	–	–
Banks and insurance companies	0.2	3.8	0.5	8.5	14.0	12.3
Public sector entities	0.2	2.8	0.4	11.0	11.7	13.8
Non-profit organizations	3.7	4.9	3.7	10.2	17.9	15.1
Housholds	92.7	4.7	91.0	16.7	19.3	21.4
Outside Finland and nominee registered	1.1	0.8	1.1	11.2	6.0	12.1
Not transferred	–	0.1	–	0.1	0.2	0.1
	100	25.7	100	74.3	100	100

Review by the Board of Directors 2000

Wärtsilä Group's net sales in 2000 totalled EUR 2,706.8 (2,700.0) million. The comparable growth in net sales was 14.6%. The operating profit improved clearly to EUR 367.1 (272.7) million. The operating profit included non-recurring items totalling EUR 225.4 million. The previous year's operating profit included corresponding items amounting to EUR 174.5 million. The profit before extraordinary items was EUR 336.1 (237.0) million.

The Power Divisions recorded aggregate net sales of EUR 2,287.8 (1,896.6) million and the result was a distinct improvement, notably because of growth in the Power Plants and Service divisions. The operating profit of the Power Divisions was EUR 86.2 (-28.5) million.

An extraordinary general meeting held on 13 September 2000 decided to change Metra's name to Wärtsilä. The change of name was the result of the company's evolution into a group focusing on one core business after Wärtsilä NSD became a wholly owned Metra subsidiary and when Metra's holding in Sanitec was reduced to 46.7%. The corporate managements of the parent company and Wärtsilä NSD were integrated at the same time. The business areas previously known under the name of Wärtsilä NSD are now called the Power Divisions.

In Wärtsilä financial statements for the year 2000 Sanitec is consolidated as a subsidiary until the end of March and then treated as an associated company from the beginning of April. Assa Abloy is no longer treated as an associated company since Wärtsilä's holding was reduced to 16.4% following the sale of shares.

NET SALES AND RESULT

Wärtsilä's consolidated net sales totalled EUR 2,706.8 (2,700.0) million. The comparable increase in net sales, after eliminating the effect of structural changes, was 14.6%. The Power Divisions generated net sales of EUR 2,287.8 (1,896.6) million and Imatra Steel's net sales were EUR 194.1 (173.0) million. Sanitec was consolidated for the first three months of the year.

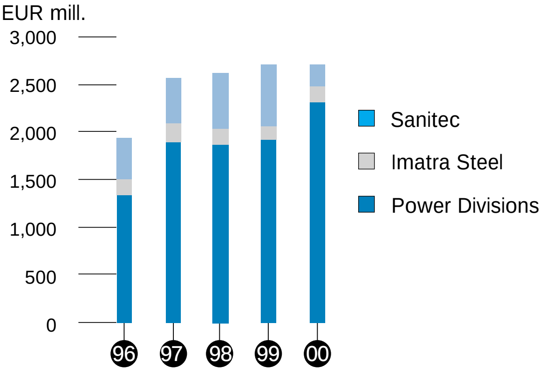
Wärtsilä Group posted an operating profit of EUR 367.1 (272.7) million. This included a EUR 225.4 million profit on the sale of 12 million Assa Abloy shares. The operating profit in the previous year included non-recurring items totalling EUR 174.5 million. Wärtsilä's share of associated companies' profits was EUR 12.0 (-10.1) million.

The profit before extraordinary items increased to EUR 336.1 (237.0) million. Profitability improved in both the Power Divisions and Imatra Steel. Wärtsilä's holding in Polar was entered at its market value at the close of the period, which gave rise to an extraordinary expense of EUR 20.4 million.

Taxes totalled EUR 96.4 (95.9) million including EUR 93.3 (85.3) million in taxes for the financial year. The effect of non-recurring items in total taxation amounted to EUR 65.4 (45.1) million.

Wärtsilä Group recorded a net profit of EUR 213.2 (130.1) million. Earnings per share totalled EUR 4.20 (2.43) which included non-recurring items of EUR 2.95 (2.38). Non-recurring items comprise the profit on the sale of shares, including its effect on taxation, and the 1999 restructuring

Development of net sales



Net sales EUR mill.	2000	1999	Change %
Marine & Licensing	719.7	637.7	12.9
Power Plants	834.6	655.4	27.3
Service	702.0	589.9	19.0
Other	31.5	13.6	
Power Divisions total	2,287.8	1,896.6	20.6
Imatra Steel	194.1	173.0	12.2
Other operations	8.3	8.8	
Internal sales	-7.8	-8.4	
Continuing business	2,482.4	2,070.0	19.9
Sanitec	224.4[1]	630.0	
Group	2,706.8	2,700.0	0.3

[1] Three months.

costs. Return on investment (ROI) was 25.4% (20.1%) and return on shareholders' equity (ROE) was 27.6% (18.0%).

FINANCING AND CAPITAL EXPENDITURE

Wärtsilä's cash flow from operations totalled EUR 140.3 (106.9) million. Cash flow from the Power Divisions was especially positive, EUR 226.4 (55.3) million. Imatra Steel's cash flow was also good, EUR 11.9 (17.3) million.

The Group's financial position was good. Cash reserves at the close of the period stood at EUR 118.9 (110,3) million. Net interest-bearing loan capital was reduced to EUR 396.7 (676.8) million.

The solvency ratio improved to 35.1% (31.4%) and gearing was 0.60 (0.90). Treating the convertible subordinated debentures as shareholders' equity, the solvency ratio improved to 40.2% (35.5%) and gearing was 0.40 (0.68). Net financial expenses decreased to EUR 31.0 (35.7) million and represented 1.1% of net sales.

Changes in the Group's structure coupled with favourable development of working capital reduced the balance sheet to EUR 2,465.3 (2,971.2) million. The deconsolidation of Sanitec and the integration of Cummins Wärtsilä's operations in France balanced each other out.

Capital expenditure during the period totalled EUR 207.7 (263.8) million, which comprised EUR 151.7 (180.0) million on investments in shares and EUR 56.0 (83.8) million on production investments. Depreciation amounted to EUR 103.1 (112.9) million. The main investment items were the acquisition of the minority holding in Wärtsilä NSD (15.4%) from Fincantieri Cantieri Navali Italiani (EUR 100 million) and participation in Assa Abloy's share issue (EUR 36 million). The largest investment in production was the first stage of the modernization of the engine testbed facility at the Turku factory.

Research and development costs in the Power Divisions amounted to EUR 79.6 (73.5) million, or 3.5% (3.9%) of their net sales. Imatra Steel's R&D expenditure totalled EUR 1.9 (2.1) million.

CHANGES IN GROUP STRUCTURE

Wärtsilä NSD became a wholly owned subsidiary on 29 February 2000. Metra was renamed Wärtsilä by the decision of an extraordinary shareholders' meeting held on 13 September 2000 and the change of name was registered on 22 September 2000.

Wärtsilä's holding in Sanitec was reduced to 46.7% following payment of an additional dividend in the form of Sanitec shares on 7 April 2000, as decided by the Annual General Meeting on 23 March 2000.

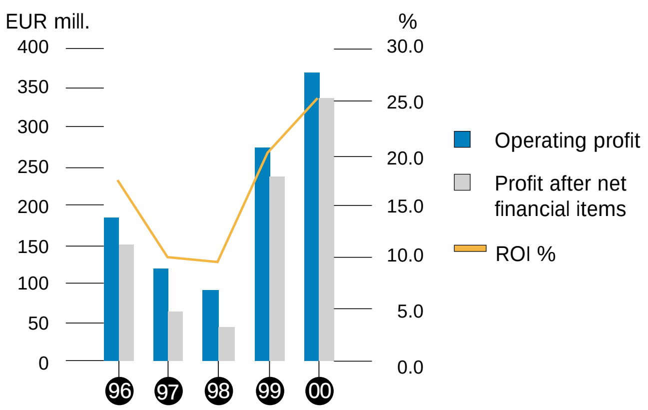
Five million Assa Abloy shares were sold for EUR 111.5 million on 8 March 2000 and seven million shares were sold for EUR 147.3 million on 4 September 2000. Wärtsilä recorded a pretax profit of EUR 225.4 million on these disposals. In June Wärtsilä participated in Assa Abloy's share issue in proportion to its holding, subscribing for 2.5 million new shares for EUR 35.9 million. Wärtsilä's holding in Assa Abloy now totals 16.4%.

The joint venture Cummins Wärtsilä was dissolved in February.

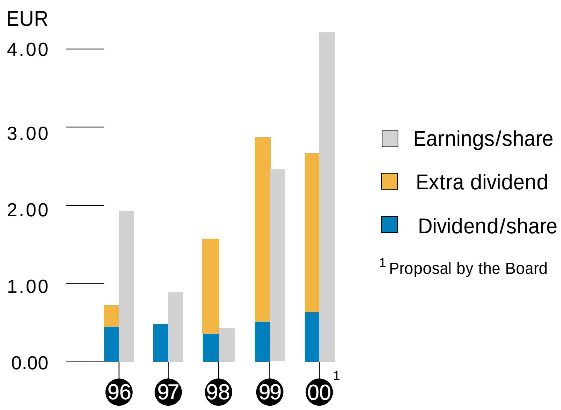
THE POWER DIVISIONS

The Power Divisions generated net sales of EUR 2,287.8 (1,896.6) million, up 20.6% on the previous year, due especially to strong growth in the Power Plants and Service divisions. Further growth was contributed by the new operations integrated into Wärtsilä after the Cummins Wärtsilä joint venture was dissolved. Comparable growth was 14.8%. Power plants and marine engines totalling 4,505

Result



Earnings/share Dividend/share



(3,663) MW were delivered to customers. The license manufacturers shipped a further 2,990 (2,615) MW of Sulzer engines. New orders totalling EUR 2,460.6 (1,853.7) million were received during the year, which was 32.7% more than one year earlier. The year-end orderbook, EUR 1,624.2 (1,314.9) million, was 23.5% higher than at the same time in 1999 and an all-time high for the Power Divisions. The operating profit of the Power Divisions was EUR 86.2 (-28.5) million. The clear improvement was attributable to the restructuring measures, higher volumes and process improvements. The operating result in the previous year included EUR 20 million in non-recurring expenses arising from the Cummins Wärtsilä split.

MARINE & LICENSING

Shipyards worldwide reported a strong surge of new orders during the year. Shipyard capacity will be fully employed until the end of 2002 with new orders extending up to 2004. Growth was most pronounced in Korea although Japan and China also benefited from the buoyant market conditions. European yards mainly attracted new orders for medium-sized containerships and cruise ships.

Looking at types of vessel, growth was strongest in tankers, over 160%, followed by containerships and cruise ships. On the other hand new orders for bulk carriers declined from their peak in 1999.

Wärtsilä presented its new concept, "The Ship Power Supplier", at the SMM shipbuilding fair in Hamburg in September. A central element of this concept is the alliance with John Crane-Lips, which makes Wärtsilä the world's largest supplier of ship propulsion systems with a comprehensive product portfolio. Under the terms of this alliance Wärtsilä withdrew from propeller production in Norway.

The total marine engine marked increased 38% to 23,743 MW from June 1999 to May 2000 according to statistics released by Diesel & Gas Turbine Worldwide. The market share of the main and auxiliary engine orders for the company's engine brands, Wärtsilä and Sulzer, was 28% (29%). Wärtsilä estimates that its share of medium-speed main engines increased to 38% (36%) and its share of the world market for low-speed main engines is 25% (35%). Wärtsilä's market share is particularly high in RoPax vessels, RoRo ferries and cruise ships.

Wärtsilä shipped medium-speed and high-speed marine engines totalling 2,768 (2,317) MW during the year. Its license manufacturers supplied a further 2,990 (2,615) MW of low-speed Sulzer engines.

POWER PLANTS

Typical of the power plant markets in 2000 were high oil and gas prices and heavy price fluctuations in all forms of energy. The Asian markets are again showing signs of a slow recovery. Turkey is emerging as a significant new market for Wärtsilä.

Product development and better project management have raised the efficiency and delivery reliability of the Power Plants division, as is shown by a number of repeat orders from established customers. Fast delivery gives Wärtsilä another important competitive advantage.

Western Europe and the USA continued to be Wärtsilä's largest gas power plant markets. A gas compression station supplied to a US customer represents an interesting new market opening for Wärtsilä.

The largest deliveries of heavy fuel oil power plants were made to the Dominican Republic, El Salvador, Brazil, Kenya, Turkey, India, Indonesia, Taiwan and the Fiji Islands.

Wärtsilä's share of HFO power plants has risen to 58% (1 June 1999 – 31 May 2000) according to Diesel & Gas Turbine World's figures, compared with 55% in the previous

Operating profit	**EUR mill.**		**ROI %**		**EBIT %**	
	2000	**1999**	**2000**	**1999**	**2000**	**1999**
Power Divisions	86.2	-28.5	12.1	-0.1	3.8	-1.5
Imatra Steel	17.4	10.8	15.6	10.0	9.0	6.2
Other	245.6	209.8				
Continuing business	349.2	192.1	29.4	20.7	14.1	9.3
Sanitec	17.9[1]	80.6		18.4		12.8
Group	367.1	272.7	25.4	20.1	13.6	10.1

[1] Three months

one-year period. Including all forms of fuel as well as gas turbines below 60 MW output, Wärtsilä's market share decreased from 10% to 7%, the main reason being substantial growth by gas turbines.

The volume of power plants shipped by Wärtsilä in 2000 increased 31% to 1,737 (1,320) MW. This figure included HFO power plants totalling 1,574 (1,022) MW and gas power plants totalling 163 (298) MW.

SERVICE

Wärtsilä's Service division continued to develop well with net sales increasing 19.0% (comparable growth 11.0%). Servicing of low-speed engines generated 22.7% higher revenues than one year earlier following an increase in the number of service agreements signed. These offer customers operations and maintenance services in addition to spare parts. Wärtsilä's service portfolio also contains solutions for maintaining the efficiency and availability of the systems that Wärtsilä supplies throughout their lifecycle as well as reducing their environmental impacts.

Wärtsilä concluded new operation and maintenance agreements totalling 272 MW during 2000 bringing the aggregate output of installations covered by these agreements to 1,262 MW. The main markets are India, Central America and Africa.

Wärtsilä announced its new e-business strategy in September. Online services enable Wärtsilä to operate more efficiently with both customers and suppliers, and to offer its expert support services more effectively than earlier. At the same time this releases resources from administrative work to productive sales and service.

The first customers of Wärtsilä's new e-business services, currently being pilot tested, are using Spares-On-Line, an Internet-based application enabling online ordering of spare parts. New services added to the range include online operating instructions. This development work is continuing and, once the trial period is completed, the plan is to expand the range of services and customers during the first half of 2001.

RESEARCH AND DEVELOPMENT

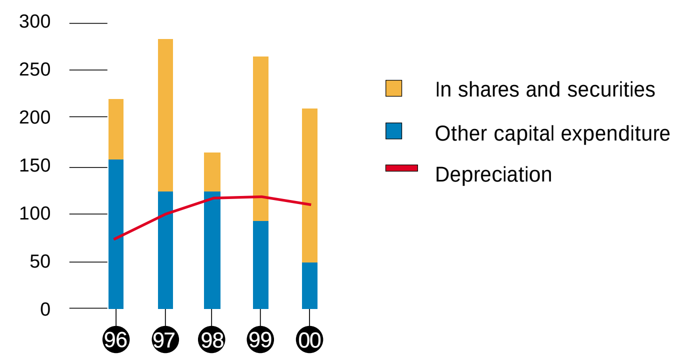
The thrust of Wärtsilä's R&D programme is on enhancing efficiency and reducing environmental impacts. Environmental issues take high priority in the company's marine and land-based applications. Wärtsilä engines fulfill all essential environment requirements and its new technologies enable further reductions of emissions.

In 2000 Wärtsilä launched a new dual-fuel engine, the W50DF (Dual Fuel), which is expected to open up new opportunities in large gas power plants. Wärtsilä's emissions-reducing EnviroEngine technology has been well received in the market. The first such engines, the Sulzer RTA58 RT-Flex and Wärtsilä 46 Common Rail, were delivered to customers at the beginning of 2001. Wärtsilä has developed a wide range of engines suitable for running on demanding liquid fuels and natural gas. Wärtsilä began field trials using Orimulsion® fuel on its W46 and W64 engines during the year and other types of fuel are under continuous investigation.

PRODUCTION

Further structural changes were made in Wärtsilä's production processes to increase flexibility in line with market changes. Wärtsilä's production system is based on close collaboration between dedicated product factories and their back up factories. This structure has succeeded in reducing tied-up capital and enhancing flexibility. The Vaasa Factory, for example, now outsources steel plate welding and pipe-

Capital expenditure and depreciation



Gross capital expenditure	EUR mill. 2000	1999
Acquisitions		
Sanitec		122.1
		122.1
Investments in securities		
Power Divisions	14.1	21.0
Sanitec		0.7
Other operations	137.6	36.2
	151.7	57.9
Other investments		
Power Divisions	47.4	41.7
Imatra Steel	7.7	9.0
Sanitec		31.0
Other operations	0.9	2.1
	56.0	83.8
Group	207.7	263.8

work. The manufacturing volume of W32 engines began to rise during the latter half of the year. The Turku Factory manufactured a record number of W46 engines supported by the factory in Italy. The Italian factory has also raised production of low-speed engines and it now has 19 engines on order. Streamlining measures were continued in Italy and France according to plan and further action will taken to raise production efficiency and quality of operations.

IMATRA STEEL

Demand for special engineering steels was good during 2000 and improved further during the autumn. Prices of special steel bars did not keep pace with growth in demand, however. On the other hand, raw materials prices were clearly higher than in the previous year, while energy and freight costs rose as well.

Production of heavy trucks reached a new all-time high in Europe, although the truck markets in the USA have started to decline. Car production volumes remained largely unchanged. Stock levels began to rise in various parts of the supply chain towards the end of the year.

Imatra Steel's net sales in 2000 totalled EUR 194.1 (173.0) million, an increase of 12.2% on the previous year. All units reported distinctly higher delivery volumes during the year and the Imatra Steel Works reported a new annual record. The operating profit improved and was EUR 17.4 (10.8) million.

The decision was taken to modernize the base metallurgical process line at the Imatra Steel Works. EUR 21 million will be invested between 2001 and 2003 on upgrading the continuous casting line, the bloom caster and the heavy rolling mill. The aim is to achieve a further increase in product quality and to safeguard the future cost efficiency of Imatra's base metallurgical processes.

GROUP HOLDINGS

The associated company Sanitec contributed an operating profit of EUR 17.9 (17.0) million to Wärtsilä's first-quarter result and EUR 12.4 million in the remainder of the year as an associated company. Sanitec will publish its annual results for 2000 on 16 February 2001. Wärtsilä's share (46.7%) of Sanitec's market capitalization on 31 December 2000 was EUR 247.2 million. The book value of the shares in Wärtsilä's consolidated balance sheet was EUR 165.6 million.

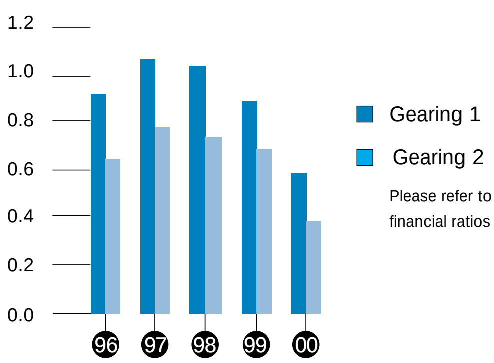
Assa Abloy released its annual results on 7 February 2001. Wärtsilä's share (16.4%) of Assa Abloy's market capitalization on 31 December 2000 was EUR 1,207.9 million. The book value of the shares in Wärtsilä's consolidated balance sheet was EUR 140.0 million. Wärtsilä recorded a dividend of EUR 5.7 million from Assa Abloy in May.

Wärtsilä Real Estate sold properties and shares in housing companies totalling EUR 29.5 (19.9) million during 2000, which yielded a profit of EUR 10.1 (7.1) million. Rental income decreased as a result of these disposals to EUR 6.0 (6.7) million. The book value of the real estate portfolio, excluding the properties used by the Group itself, totalled EUR 27.5 (49.8) million at the year end. The portfolio's yield (net operating income/book value) was 8.5% (8.5%).

CORPORATE MANAGEMENT AND PERSONNEL

On 13 September 2000 Wärtsilä's Board of Directors approved Mr Georg Ehrnrooth's request to resign as the company's chief executive and appointed Mr Ole Johansson (49) President and CEO. Mr Ehrnrooth retired from the company at the beginning of 2001 in accordance with his contract. Mr Raimo Lind MSc (Econ.) was appointed Chief Financial Officer of the company in May 2000. The composition of Wärtsilä's Board of Management was confirmed in September. At the same time

Gearing



Please refer to the calculation of financial ratios on page 76.

Mr Sven Bertlin MSc (Econ.) was appointed Executive Vice President and deputy to the CEO.

The Group had 12,800 (15,945) employees on average during the year and 10,564 (18,422) at the year end. The reduction was attributable to changes in the corporate structure. The number of employees in the Power Divisions increased to 9,255 (8,742) at the close of the period. The reason for the increase was the transfer to Wärtsilä of certain Cummins Wärtsilä employees after this joint venture was dissolved, and an increase in operations personnel in the Service division.

Human resources development is focusing increasingly on assessment of 12 competency areas. More than 400 managers have now been assessed and the results have enabled corporate management to refine the training programmes offered. The company's top management participate actively in the implementation of these programmes.

DEBENTURES AND BONDS WITH WARRANTS

Altogether 8,744 A shares and 14,088 B shares had been subscribed based on the conversion rights attached to the two 1994 convertible subordinated debentures by 31 December 2000; these shares represented EUR 0.5 (FIM 3.1) million of the loan principal.

Conversions during 2000 raised Wärtsilä's share capital by EUR 7,392 to EUR 189.7 million. There are 54,202,358 shares in all; 13,935,412 A shares and 40,266,946 B shares.

No shares were subscribed based on the 1996 bond with warrants during the financial year.

SHAREHOLDER MEETINGS

The Annual General Meeting on 23 March 2000 approved a dividend of EUR 0.50 per share and an extra dividend of EUR 2.35 per share to be paid principally in the form of Sanitec shares. The terms of the convertible subordinated debentures and bond warrants were adjusted by the amount of the extra dividend.

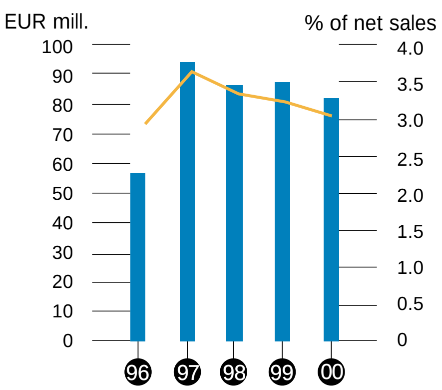
The number of members of the Board of Directors was reduced by one following the resignation of Mr Carl-Olaf Homén. In other respects the composition of the Board of Directors remained unchanged. Mr Robert G. Ehrnrooth continued as Chairman of the Board and Mr Vesa Vainio as Deputy Chairman. The firm of authorized public accountants KPMG Wideri Oy Ab was elected as the company´s auditors.

The AGM authorized the Board of Directors to repurchase and dispose of the company's own shares to an amount corresponding to at most 5% of the company's total number of shares and votes. This authorization was not exercised.

An extraordinary general meeting on 13 September 2000 approved the amendment of §1 of the company's Articles of Association. The company's new name is Wärtsilä Oyj Abp in Finnish and Swedish, Wärtsilä Corporation in English. Consequently, the Metra A share was renamed Wärtsilä A share and the Metra B share, Wärtsilä B share. New trading codes for the two series, WRTAV and WRTBV, were introduced at the same time.

The extraordinary general meeting also decided to sell all Wärtsilä A and B shares held in the joint book-entry account on behalf of their owners. The joint account holds those shares for which the share certificates have not been converted to book-entries.

R & D expenses



Interest bearing loan capital	EUR mill.	2000	1999
Long-term liabilities		245.7	403.1
Short-term liabilities		239.3	391.2
Preferred capital notes		117.2	117.2
Loan receivables		-86.6	-124.4
Cash and bank balances		-118.9	-110.3
Net		396.7	676.8

Megawatts delivered	2000	1999	Change %
Power Plants engines, total	1,737	1,320	32
Marine engines	2,768	2,317	19
Wärtsilä total	4,505	3,637	24
By licensees	2,990	2,615	14
Wärtsilä and Sulzer engines, total	7,495	6,252	20

BOARD'S PROPOSALS TO THE ANNUAL GENERAL MEETING

The Board of Directors proposes to the Annual General Meeting on 20 March 2001 that a normal dividend of EUR 0.65 (FIM 3.86) per share and an extra dividend of EUR 2.00 (FIM 11.89) per share be distributed on the financial year ended 31 December 2000.

With respect to the extra dividend the Board proposes that the conversion ratio of the 1994 convertible subordinated debentures and the subscription price of the Wärtsilä shares subscribable under the warrants attached to the 1996 bond with warrants be changed corresponding to the amount of the extra dividend.

The Board also proposes that warrants be issued to key personnel of Wärtsilä Group. The Board proposes that altogether 1,500,000 warrants be issued allowing subscription of the same number of Wärtsilä Corporation B shares. The shares subscribable under the warrants will represent 2.7% of the share capital and 0.8% of the votes. The purpose of the share option programme is to encourage key employees to work on a long-term basis in order to raise shareholder value and to increase their commitment to the company.

Furthermore, the Board proposes that the AGM authorize the Board for one year to repurchase the company's own shares in public trading on the Helsinki Exchanges at the prevailing price, and other than in proportion to the holdings of the shareholders. At most 696,770 A shares and at most 2,013,347 B shares may be repurchased, representing at most 5% of all the shares and votes. This authorization also includes the right to dispose of the company's shares repurchased in this manner at a price at least equal to the share price prevailing on the Helsinki Exchanges, disapplying shareholders' pre-emptive rights of subscription. At the same time the Board proposes that the corresponding authorization granted by the AGM on 23 March 2000 to repurchase and dispose of the company's own shares be revoked.

In view of amendments to the Finnish Companies Act the Board proposes that the period of notification of general meetings mentioned in §10 of the company's Articles of Association be amended to comply with the new regulations.

PROSPECTS FOR 2001

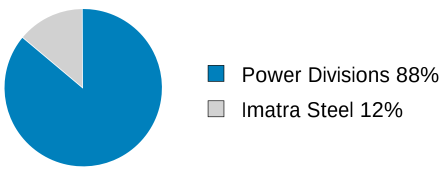
Market conditions for Wärtsilä and Sulzer marine engines are expected to remain good. Wärtsilä expects to raise its market share of propulsion systems by means of The Ship Power Supplier concept. Greater environmental concern is expected to assist marketing of the EnviroEngine products. The offshore markets are recovering and further growth is expected in this segment.

In the power plant sector growth in demand is forecast to continue in the USA. Good demand is also expected to continue in Turkey, Latin America and India. Deregulation of the electricity markets in Europe is favouring flexible and small-scale power plants. Gas power plants are forecast to increase market share in this market.

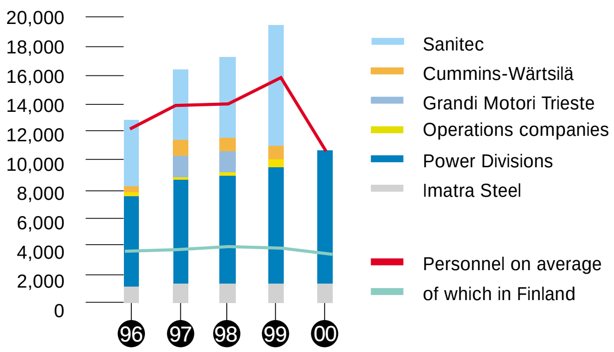
The good orderbook of Wärtsilä's Power Divisions and the current favourable outlook will increase net sales and improve profits during 2001. Wärtsilä's systematic action to raise productivity and improve quality will be continued in order to achieve the company's long-term profit target.

For Imatra Steel, the year 2001 has begun amidst signs of uncertainty in the markets. Production of trucks and cars is forecast to begin declining in Europe during the spring. Imatra Steel is expected to report slightly lower net sales and profits in 2001.

Personnel by division end of 2000



Personnel by division



Income statement

EUR mill.	Note	2000	%	1999	%
Net sales	1	2,706.8	100.0	2,700.0	100.0
Change in inventories of finished goods and work in progress		-30.5		-82.3	
Production for own use		3.1		14.0	
Other operating income	2	264.1		236.6	
Materials and services					
Materials and consumables					
Purchases during the financial year		-1,068.1		-1,058.6	
Change in inventories		-19.2		-25.1	
External services		-536.8		-439.7	
		-1624.1		-1,523.4	
Personnel expenses	3	-554.4		-602.1	
Depreciation and write-downs	4	-103.1		-112.9	
Other operating expenses		-306.8		-347.1	
Share of profits/losses in associated companies		12.0		-10.1	
Operating profit		367.1	13.6	272.7	10.1
Financial income and expenses	5				
Income from financial assets		7.9		2.5	
Other interest income and financial income		32.3		55.0	
Exchange gains and losses		-10.5		0.3	
Interest expenses and other financial expenses		-60.7		-93.5	
		-31.0	-1.1	-35.7	-1.3
Profit before extraordinary items		336.1	12.4	237.0	8.8
Extraordinary items	6				
Extraordinary expenses		-20.4		-2.5	
		-20.4		-2.5	
Profit before taxes		315.7	11.7	234.5	8.7
Income taxes	7	-96.4		-95.9	
Minority interests		-6.1		-8.5	
Profit for the financial year		213.2	7.9	130.1	4.8

Financial analysis

EUR mill.	2000	1999
Cash flow from operating activities:		
Operating profit	367.1	272.7
Adjustments for:		
Share of profits in associated companies	-12.0	10.1
Depreciation and write-downs	103.1	112.9
Selling profit and loss of fixed assets	-245.7	-203.5
Other adjustments, Sanitec	-31.8	
Cash flow before working capital changes	180.7	192.2
Changes in working capital:		
Current assets, non-interest bearing, increase(-)/decrease(+)	35.6	51.3
Inventories, increase (-)/decrease(+)	62.3	149.4
Current liabilities, non-interest bearing, increase(+)/decrease(-)	-1.2	-161.3
	96.7	39.4
Cash flow from operating activities before financial items and taxes	277.4	231.6
Interest and other financial expenses	-123.4	-249.8
Received dividends from operating activities	8.4	5.3
Interest and other financial income from operating activities	66.2	206.5
Income taxes	-88.3	-86.7
Cash flow from operating activities before extraordinary items	140.3	106.9
Cash flow from operating activities (A)	140.3	106.9
Cash flow from investing activities:		
Acquisitions		-122.1
Investments in shares	-151.7	-58.0
Investments in other tangible and intangible assets	-56.0	-83.6
Proceeds from sale of shares [1]	259.2	188.3
Proceeds from sale of tangible and intangible assets	23.4	22.9
Loan receivables, increase(-), decrease(+)	-1.7	18.1
Interest income from investments		0.8
Dividends received from investments	7.9	1.5
Cash flow from investing activities (B)	81.1	-32.1
Cash flow from financing activities:		
Share capital investment by minority shareholders		84.8
Loans receivable, increase (-)/decrease(+)	18.7	147.9
Current loans, increase (+)/decrease(-)	-109.9	-208.4
New long term loans	0.3	163.9
Amortisation and other changes of long-term loans	-62.2	-234.0
Repayment of convertible subordinated debentures	0.0	0.0
Paid dividends [2]	-78.6	-21.2
Other changes	18.9	7.9
Cash flow from financing activities (C)	-212.8	-59.1
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	8.6	15.7
Liquid funds at beginning of period	110.3	94.6
Liquid funds at end of period	118.9	110.3

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

[1] Change includes subtraction of Sanitec´s liquid funds, EUR -30.7 million.

[2] Dividend 2000 EUR 27.1 million and extra dividend in Sanitec shares and related taxes.

Balance sheet

Assets EUR mill.	Note	31 Dec. 2000	%	31 Dec. 1999	%
Fixed assets	9				
Intangible assets					
Intangible rights		6.2		9.8	
Goodwill on consolidation		119.6		189.6	
Other long-term expenditure		26.9		18.3	
		152.7	6.2	217.7	7.3
Tangible assets					
Land and water		44.1		91.5	
Buildings and structures		162.8		233.4	
Machinery and equipment		214.3		328.2	
Other tangible assets		16.8		11.9	
Advance payments and construction in progress		15.5		30.5	
		453.5	18.4	695.5	23.4
Financial assets					
Shares in associated companies		179.0		195.2	
Receivables from associated companies		2.0		0.5	
Other shares and securities		183.7		98.0	
Other receivables		7.7		10.5	
		372.4	15.1	304.2	10.3
Total fixed assets		978.6	39.7	1,217.4	41.0
Current assets					
Inventories					
Materials and consumables		232.3		263.8	
Work in progress		245.2		280.6	
Finished products/goods		48.0		114.8	
Advance payments		13.5		8.5	
		539.0	21.9	667.7	22.5
Long-term receivables	10				
Trade receivables		4.8		9.1	
Receivables from associated companies		6.1		10.3	
Loan receivables		17.3		17.0	
Deferred tax assets	11	30.7		41.4	
Other receivables		0.8		0.1	
Prepaid expenses and accrued income	13	2.8		3.6	
		62.5	2.5	81.5	2.7
Short-term receivables	12				
Trade receivables		541.0		621.9	
Receivebles from associated companies		2.9		15.5	
Loan receivables		62.8		97.2	
Other receivables		23.4		38.2	
Prepaid expenses and accrued income	13	136.2		121.5	
		766.3	31.1	894.3	30.1
Investments	14				
Other shares and securities				4.8	0.1
Cash and bank balances		118.9	4.8	105.5	3.6
Total current assets		1,486.7	60.3	1,753.8	59.0
Assets		2,465.3	100.0	2,971.2	100.0

Balance sheet

Shareholders' equity and liabilities EUR mill.	Note	31 Dec. 2000	%	31 Dec. 1999	%
Shareholders' equity	15				
Share capital		189.7		189.7	
Share premium reserve		45.6		45.5	
Other reserves		54.8		74.4	
Retained earnings		287.6		269.6	
Profit for the financial year		213.2		130.1	
		790.9	32.1	709.3	23.9
Convertible subordinated debentures	16	117.2	4.8	117.2	3.9
Total shareholders' equity		908.1	36.8	826.5	27.8
Minority interest		14.3	0.6	180.4	6.1
Provisions	17				
Provisions for pensions		42.6		76.6	
Provisions for taxation		2.1		10.7	
Other provisions		64.7		86.1	
		109.4	4.4	173.4	5.8
Liabilities	18				
Long-term					
Bonds		4.2		54.7	
Loans from credit institutions		183.7		290.7	
Pension loans		46.3		52.9	
Deferred tax liability	19	46.5		65.2	
Other long-term liabilities		13.8		8.1	
		294.5	11.9	471.6	15.9
Current					
Bonds		50.5			
Loans from credit institutions		179.7		283.6	
Pension loans		6.6		6.7	
Advances received		171.0		135.4	
Trade payables		337.7		349.3	
Liabilities to associated companies	21	1.8		6.1	
Other current liabilities		38.7		144.0	
Accrued expenses and deferred income	20	353.0		394.2	
		1,139.0	46.2	1,319.3	44.4
Total liabilities		1,433.5	58.1	1,790.9	60.3
Shareholders' equity and liabilities		2,465.3	100.0	2,971.2	100.0

Income statement

EUR mill.	Note	2000	1999
Net sales		7.1	8.1
Other operating income	2	254.2	182.5
Personnel expenses	3	-3.8	-3.4
Depreciation and write-downs	4	-2.4	-2.6
Other operating expenses		-10.7	-13.6
Operating profit		244.3	171.0
Financial income and expenses	5		
Income from financial assets		19.3	17.8
Other interest income and financial income		22.6	16.5
Exchange gains and losses		1.0	-14.3
Interest expenses and other financial expenses		-27.0	-25.3
		15.9	-5.3
Profit before extraordinary items		260.2	165.7
Extraordinary items	6		
Extraordinary expenses		-20.3	-2.6
Group contribution		10.5	5.0
		-9.8	2.4
Profit before appropriations and taxes		250.4	168.1
Appropriations			
Change in depreciation difference	4	0.9	1.5
Profit before taxes		251.3	169.6
Income taxes	7	-71.0	-45.8
Profit for the financial year		180.3	123.8

Financial analysis

EUR mill.	2000	1999
Cash flow from operating activities:		
Operating profit	244.4	171.0
Adjustments for:		
Depreciation and write-downs	2.4	2.6
Selling profit and loss of fixed assets	-250.3	-176.3
Cash flow before working capital changes	-3.5	-2.7
Changes in working capital:		
Current assets, non-interest bearing, increase(-)/decrease(+)	1.6	16.2
Current liabilities, non-interest bearing, increase(+)/decrease(-)	-35.3	-6.0
	-33.7	10.2
Cash flow from operating activities before financial items and taxes	-37.2	7.5
Interest and other financial expenses	-47.7	-68.1
Received dividends from operating activities	11.7	16.1
Interest and other financial income from operating activities	44.2	44.9
Income taxes	-69.0	-45.8
Cash flow from operating activities before extraordinary items	-98.0	-45.4
Cash flow from operating activities (A)	-98.0	-45.4
Cash flow from investing activities:		
Investments in shares	-137.6	-36.3
Investments in other tangible and intangible assets	-0.9	-1.9
Proceeds from sale of shares	289.2	201.0
Proceeds from sale of tangible and intangible assets	15.1	20.2
Loan receivables, increase(-), decrease(+)	2.8	
Interest income from investments		0.8
Dividends received from investments	7.6	0.9
Cash flow from investing activities (B)	176.2	184.7
Cash flow from financing activities:		
Loans receivable, increase (-)/decrease(+)	62.4	-224.4
Current loans, increase (+)/decrease(-)	1.3	-28.9
New long-term loans		84.6
Amortisation and other changes of long term loans	-7.3	-209.8
Repayment of convertible subordinated debentures	0.0	0.0
Group contribution		12.7
Paid dividends [1]	-78.0	-20.6
Cash flow from financing activities (C)	-21.6	-386.4
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	56.6	-247.1
Liquid funds at beginning of period	34.4	281.5
Liquid funds at end of period	91.0	34.4

[1] Dividend 2000 EUR 27.1 million and extra dividend in Sanitec shares and related taxes.

Balance sheet EUR mill.

Assets	Note	31 Dec. 2000	31 Dec. 1999
Fixed assets	9		
Intangible assets			
Other long-term expenditure		5.9	7.3
		5.9	7.3
Tangible assets			
Land and water		20.5	25.1
Buildings and structures		8.6	10.6
Machinery and equipment		0.4	0.6
Other tangible assets		0.4	0.5
Advance payments and construction in progress		0.7	1.4
		30.6	38.2
Financial assets	26		
Shares in Group companies		531.6	482.5
Receivables from Group companies		18.1	20.0
Shares in associated companies		39.2	78.7
Receivables from associated companies		0.3	0.5
Other shares and securities		103.8	37.4
Other receivables		3.5	4.2
		696.5	623.3
Total fixed assets		733.0	668.8
Current assets			
Long-term receivables	10		
Receivables from associated companies			4.9
Loan receivables		4.0	1.4
		4.0	6.3
Short-term receivables	12		
Trade receivables		0.5	0.2
Receivables from Group companies		181.3	240.1
Loan receivables		0.1	0.6
Prepaid expenses and accrued income	13	8.9	6.0
		190.8	246.9
Investments	14		
Other shares and securities			4.8
Cash and bank balances		91.1	29.5
Total current assets		285.9	287.5
Assets		1,018.9	956.3

Shareholders' equity and liabilities	Note	31 Dec. 2000	31.Dec 1999
Shareholders' equity	15		
Share capital		189.7	189.7
Share premium reserve		45.6	45.5
Retained earnings		300.1	258.0
Profit for the financial year		180.3	123.8
		715.7	617.0
Convertible subordinated debentures	16	117.2	117.2
Total shareholders' equity		832.9	734.2
Accumulated appropriations			
Depreciation difference		5.5	6.4
Voluntary provisions			0.1
		5.5	6.5
Provisions	17		
Provisions for pensions		3.4	3.6
Provisions for taxation		1.4	1.4
Other provisions		2.6	2.6
		7.4	7.6
Liabilities	18		
Long-term			
Bonds		4.2	54.7
Loans from credit institutions		84.5	89.9
Pension loans		12.6	14.5
		101.3	159.1
Current			
Bonds		50.5	
Loans from credit institutions		0.2	0.2
Pension loans		2.0	2.0
Trade payables		0.3	0.3
Liabilities to Group companies	21	2.5	0.2
Liabilities to associated companies	21	0.7	0.7
Other current liabilities		1.1	1.0
Accrued expenses and deferred income	20	14.5	44.5
		71.8	48.9
Total liabilities		173.1	208.0
Shareholders' equity and liabilities		1,018.9	956.3

Accounting Principles 2000

The consolidated financial statements of Wärtsilä Corporation have been prepared and presented in accordance with the Finnish accounting regulations which came into force on 31 December 1997. In all essential respects these comply with the accounting standards issued by the International Accounting Standards Committee (IASC). Major deviations to these standards are described below.

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

PRINCIPLES OF CONSOLIDATION

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

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

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

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

FOREIGN SUBSIDIARIES

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

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

TRANSACTIONS DENOMINATED IN FOREIGN CURRENCIES

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

REVENUE RECOGNITION

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

RESEARCH AND DEVELOPMENT

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

PENSION ARRANGEMENTS

Statutory and supplementary pension obligations in Finland are covered through payments to pension insurance institutions and recorded as determined by periodical actuarial calculations prepared by those institutions. In the Group companies outside Finland, the pension obligations are arranged and pension liabilities recorded in accordance with local legislation and practice. Changes in uncovered pension obligations are entered in the income statement and the pension liability is included in provisions in the balance sheet. The treatment of pension costs differs from IAS principles, but is not estimated to have a material effect on the financial statements.

WARRANTY COSTS

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

VALUATION OF INVENTORIES

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

FIXED ASSETS AND DEPRECIATION

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

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

LEASING

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

EXTRAORDINARY INCOME AND EXPENSES

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

APPROPRIATIONS

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

PROVISIONS

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

INCOME TAXES

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

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

CONVERTIBLE CAPITAL NOTES

Wärtsilä Corporation has made two convertible capital notes issues, which are treated as equivalent to shareholders' equity. The terms are described 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 financial statements

1. Net sales	Group				Power Divisions			
	2000		1999		2000		1999	
	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%
Net sales by country								
Italy	230.4	8.5	244.9	9.1	204.1	8.9	164.6	8.7
France	165.8	6.1	134.2	5.0	112.8	4.9	37.4	2.0
Germany	163.0	6.0	290.8	10.8	96.4	4.2	114.0	6.0
Norway	102.3	3.8	130.1	4.8	85.9	3.8	88.3	4.7
Sweden	101.6	3.8	127.3	4.7	21.7	0.9	12.5	0.7
Great Britain	95.6	3.5	99.4	3.7	64.5	2.8	64.2	3.4
Finland	93.8	3.5	130.1	4.8	53.4	2.3	69.5	3.7
The Netherlands	71.1	2.6	75.0	2.8	67.9	3.0	64.7	3.4
Spain	70.3	2.6	108.0	4.0	68.2	3.0	105.4	5.6
Poland	51.0	1.9	55.4	2.1	38.7	1.7	8.0	0.4
Denmark	44.0	1.6	64.4	2.4	33.6	1.5	28.9	1.5
Other European countries	117.5	4.3	153.5	5.7	98.4	4.3	106.3	5.6
Europe	1,306.4	48.3	1,613.1	59.7	945.6	41.3	863.8	45.5
India	193.8	7.2	150.7	5.6	193.8	8.5	150.5	7.9
Middle East	122.5	4.5	68.3	2.5	121.4	5.3	65.1	3.4
China and Hong Kong	112.4	4.2	85.5	3.2	111.9	4.9	84.2	4.4
Korea	93.6	3.5	65.2	2.4	93.0	4.1	62.9	3.3
Japan	51.9	1.9	56.1	2.1	51.0	2.2	52.2	2.8
Taiwan	31.9	1.2	27.0	1.0	31.4	1.4	26.0	1.4
Indonesia	24.5	0.9	12.8	0.5	24.5	1.1	12.8	0.7
Philippines	14.3	0.5	16.5	0.6	14.3	0.6	16.4	0.9
Other Asian countries	56.7	2.1	107.0	4.0	54.3	2.4	96.1	5.1
Asia	701.6	25.9	589.1	21.8	695.6	30.4	566.2	29.9
Central America	189.6	7.0	122.1	4.5	189.6	8.3	122.1	6.4
South America	188.2	7.0	116.1	4.3	188.2	8.2	115.5	6.1
USA and Canada	128.7	4.8	127.5	4.7	117.7	5.1	100.6	5.3
The Americas	506.5	18.7	365.7	13.5	495.5	21.7	338.2	17.8
African countries	118.8	4.4	86.4	3.2	118.6	5.2	85.8	4.5
Other countries	73.3	2.7	45.7	1.7	32.4	1.4	42.6	2.2
Total	2,706.8	100.0	2,700.0	100.0	2,287.8	100.0	1,896.6	100.0

	Group		Parent company	
	2000	1999	2000	1999
Projects for which percentage-of-completion method is applied				
Recognized accumulated income				
Uncompleted projects	732.8	676.0		
Unrecognized part of income	144.8	94.0		
Recognized accumulated contribution	52.0	77.7		
2. Other operating income				
Rental income	1.0	2.0	0.2	1.1
Profit on sales of fixed assets	248.8	209.2	253.0	181.0
Other operating income	14.3	25.4	1.0	0.4
Total	264.1	236.6	254.2	182.5
3. Personnel expenses				
Wages and salaries	429.5	457.2	2.5	2.8
Pension costs	20.7	21.0	1.0	0.3
Other compulsory personnel costs	104.2	123.9	0.3	0.3
Total	554.4	602.1	3.8	3.4

Pension costs contain only pension costs for Finnish companies.
Pension costs for foreign companies are included in Other compulsory personnel costs.

Salaries and emoluments to senior management				
Presidents and members of the Boards of Directors	12.4	11.9	0.6	0.5

The CEO and the presidents of some Group Companies have the right to retire at the age of 60 years.
The Company's Board of Directors decides the remunerations of the President and his immediate subordinates.

	Group			Parent company	
	2000	1999	Change	2000	1999
Personnel on average					
Power Divisions [1]	9,404	8,866	538		
Imatra Steel	1,281	1,237	44		
Other operations	30	46	-16	30	45
Continuing business	10,715	10,149	566		
Sanitec [2]	2,085	5,796	-3,711		
Total	12,800	15,945	-3,145		

[1] 1999 figure increased with operations personnel.
[2] Sanitec only January - March

4. Depreciation and write-downs

	Group 2000	Group 1999	Change	Parent company 2000	Parent company 1999
Depreciation according to plan					
Intangible assets	3.3	2.4			
Goodwill on consolidation	13.7	12.7			
Other long-term expenditure	5.7	6.2		1.4	1.4
Buildings and structures	15.3	15.4		0.8	1.0
Machinery and equipment	58.8	72.1		0.2	0.2
Other tangible assets	6.1	3.4			
Construction in progress	0.2	0.1			
Total depreciation according to plan	103.1	112.3		2.4	2.6
Total book depreciation				1.7	2.1
Depreciation difference				0.7	0.5
Adjustment of depreciation difference on sold fixed assets				0.2	1.0
Write-downs of fixed assets		0.6			
Depreciation difference on 1 January				6.4	7.9
Change in depreciation difference				-0.9	-1.5
Depreciation difference on 31 December				5.5	6.4

5. Financial income and expenses

	Group 2000	Group 1999	Change	Parent company 2000	Parent company 1999
Income from financial assets					
Dividend income					
From Group companies					11,0
From associated companies		0.1		11.7	5.1
From other companies	7.8	1.6		7.6	0.9
Total	7.8	1.7		19.3	17.0
Interest income from financial assets					
From other companies	0.1	0.8			0.8
Income from financial assets. total	7.9	2.5		19.3	17.8
Other interest income and financial income					
From Group companies	-	-		15.1	12.4
From other companies	32.3	55.0		7.5	4.1
Total	32.3	55.0		22.6	16.5
Exchange gains and losses	-10.5	0.3		1.0	-14.3
Write-downs of financial assets	-2.0	-1.4			
Interest expenses and financial expenses					
To Group companies	-	-		-0.2	-0.7
To other companies	-58.7	-92.1		-26.8	-24.6
Total	-58.7	-92.1		-27.0	-25.3
Financial income and expenses, total	-31.0	-35.7		15.9	-5.3

	Group 2000	Group 1999	Parent company 2000	Parent company 1999
6. Extraordinary income and expenses				
Share write-downs	-15.5	-2.6	-15.5	-2.6
Write-down of loan receivables	-4.9		-4.9	
Group contributions received	-	-	10.6	5.0
Total	-20.4	-2.6	-9.8	2.4
7. Income taxes				
Income taxes on operations				
- for the financial year	-93.3	-85.3	-71.3	-46.2
- for prior years	-3.4	0.8	0.2	0.4
Change in deferred tax	0.2	-11.4	-	-
Total	-96.4	-95.9	-71.1	-45.8
Income taxes on extraordinary items	5.9	0.7	2.8	-0.7

8. Continuing business

	Power Divisions 2000	Power Divisions 1999	Imatra Steel 2000	Imatra Steel 1999	Other 2000	Other 1999	Continuing business 2000	Continuing business 1999	Sanitec 2000	Sanitec 1999	Group 2000	Group 1999
Net sales	2,287.8	1,896.6	194.1	173.0	0.5	0.4	2,482.3	2,070.0	224.4	630.0	2,706.8	2,700.0
Change in inventories of finished goods and work in progress	-46.0	-76.1	5.7	-1.9			-40.3	-78.0	9.8	-4.3	-30.4	-82.3
Production for own use	3.0	13.2		0.1			3.0	13.3	0.1	0.7	3.1	14.0
Other operating income	11.2	23.4	2.8	2.0	248.3	206.5	262.3	231.9	1.8	4.7	264.1	236.6
Purchases during the financial year	-901.6	-799.6	-90.2	-68.5	2.4	2.8	-989.4	-865.3	-78.7	-193.3	-1,068.1	-1,058.6
Change in inventories	-26.8	-26.3	3.2	-1.5			-23.6	-27.8	4.4	2.7	-19.2	-25.1
External services	-481.0	-353.9	-24.0	-22.1			-505.0	-376.0	-31.8	-63.7	-536.8	-439.7
	-1,409.4	-1,179.8	-111.0	-92.1	2.4	2.8	-1,518.0	-1,269.1	-106.1	-254.3	-1,624.1	-1,523.4
Personnel expenses	-431.5	-384.7	-50.0	-46.5	-3.8	-3.4	-485.2	-434.6	-69.1	-167.5	-554.4	-602.1
Depreciation and write-downs	-73.1	-64.6	-11.8	-12.1	-5.2	-1.8	-90.1	-78.5	-13.1	-34.4	-103.1	-112.9
Other operating expenses	-256.8	-229.4	-12.4	-11.8	-9.0	-12.4	-278.3	-253.6	-28.5	-93.5	-306.8	-347.1
Share of profits/losses in associated companies	1.0	-27.1			12.4	17.8	13.5	-9.3	-1.5	-0.8	12.0	-10.1
Operating profit	86.2	-28.5	17.4	10.7	245.6	209.9	349.2	192.1	17.9	80.6	367.1	272.7
Financial income and expenses							-27.7	-26.4	-3.3	-9.3	-31.0	-35.7
Profit before extraordinary items							321.5	165.7	14.6	71.3	336.1	237.0
Extraordinary items							-20.4	-2.5			-20.4	-2.5
Profit before taxes							301.1	163.2	14.6	71.3	315.7	234.5
Income taxes							-90.7	-69.3	-5.8	-26.6	-96.5	-95.9
Minority interests							-2.9	-1.4	-3.2	-7.1	-6.1	-8.5
Profit for the financial year							207.5	92.5	5.6	37.6	213.2	130.1

	Group 2000	Group 1999	Parent company 2000	Parent company 1999
9. Fixed assets				
Revaluations				
Land	13.2	16.9	13.2	16.9
Amount of goodwill on consolidation of associated companies, which has not yet been amortized		8.7		
Capitalized interest expenses				
Capitalized interest expenses, which have not yet been amortized				
Buildings and structures		0.5		
Machinery and equipment		1.3		
Total		1.8		

Fixed assets

	Acquisition cost on 1 Jan.	Transfers between rows	In-creases	De-creases	Accum. depreciation and write-downs on 1 Jan.	Accum. deprecia-tion in decreases	Depreci-ation during year	Write-downs and their reversals	Residual value on 31 Dec.
Group									
Intangible assets									
Intangible rights	12.5		2.8		-5.8		-3.3		6.2
Goodwill on consolidation	153.8				-20.5		-13.7		119.6
Other long-term expenditure	69.3		6.3	-1.1	-42.3	0.4	-5.7		26.9
Group 2000	235.6		9.1	-1.1	-68.6	0.4	-22.7		152.7
Group 1999	241.1		91.4	-3.0	-92.5	2.0	-21.3		217.7
Tangible assets									
Land and water	48.9		0.2	-4.9	-0.1				44.1
Buildings and structures	269.6		2.7	-6.0	-92.1	3.9	-15.3		162.8
Machinery and equipment	642.2		30.4	-33.0	-393.7	27.3	-58.8		214.4
Other tangible assets	40.1		3.9	-0.9	-20.9	0.7	-6.1		16.8
Advance payments and constr'n in progress	6.9		10.7	-1.7	-0.2		-0.2		15.5
Group 2000	1,007.7		47.9	-46.5	-507.0	31.9	-80.4		453.6
Group 1999	1,249.0		106.9	-48.5	-536.6	16.3	-91.0	-0.6	695.5
Financial assets									
Shares in associated companies	195.2	-68.2	95.8	-41.9				-1.9	179.0
Receivables from associated companies	0.5		1.5						2.0
Shares in other companies	99.5	68.2	56.0	-38.5	-1.5				183.7
Receivables from other companies	10.5			-2.8					7.7
Group 2000	305.7		153.3	-83.2	-1.5			-1.9	372.4
Group 1999	324.8		73.5	-88.6	-4.1			-1.4	304.2
Parent company									
Intangible assets									
Intangible rights	0.3				-0.3				
Other long-term expenditure	18.6				-11.3		-1.4		5.9
Parent company 2000	18.9				-11.6		-1.4		5.9
Parent company1999	19.0				-10.2		-1.4		7.4
Tangible assets									
Land and water	25.0		0.1	-4.6					20.5
Buildings and structures	29.5			-1.1	-19.0		-0.8		8.6
Machinery and equipment	6.8		0.1	-0.1	-6.2		-0.2		0.4
Other tangible assets	1.5			-0.1	-0.9				0.5
Construction in progress	1.4		0.8	-1.5					0.7
Parent company 2000	64.2		1.0	-7.4	-26.1		-1.0		30.7
Parent company 1999	70.0		1.9	-4.8	-24.9		-1.2	-2.8	38.2
Financial assets									
Shares in Group companies	482.5	-37.9	101.8	-14.8					531.6
Shares in associated companies	78.7	-30.3	0.5	-9.7					39.2
Shares in other companies	38.9	68.2	35.7	-37.5	-1.5				103.8
Parent company 2000	600.1		138.0	-62.0	-1.5				674.6
Parent company 1999	607.3		36.5	-41.1	-1.5			-2.6	598.6

	Group 2000	Group 1999	Parent company 2000	Parent company 1999
10. Specification of long-term receivables				
Receivables from associated companies				
Loan receivables	6.1	10.3		4.9
11. Specification of deferred tax assets				
Based on consolidation	10.1	16.1		
Based on balance sheets of Group companies	20.6	25.2		
Total	30.7	41.3		
12. Specification of short-term receivables				
Receivables from Group companies				
Trade receivables	-	-	0.2	0.1
Loan receivables	-	-	180.0	238.9
Prepaid expenses and accrued income	-	-	1.0	1.1
Total	-	-	181.2	240.1
Receivables from associated companies				
Trade receivables	2.2	13.8		
Loan receivables	0.6	1.4		
Prepaid expenses and accrued income	0.1	0.3		
Total	2.9	15.5		
13. Main items in prepaid expenses and accrued income				
Interest	2.3	3.6		0.1
Other financial items	40.6	12.6		0.2
Income and other taxes	17.5	32.3	3.7	3.4
Other	78.6	76.6	5.2	2.2
Total	139.0	125.1	8.9	5.9
14. Investments in shares and securities				
Market value		8.4		8.4
Book value		4.8		4.8
Difference		3.6		3.6
15. Shareholders’ equity				
Share capital				
Share capital on 1 Jan.				
Series A	48.8	46.9	48.8	46.9
Series B	140.9	135.4	140.9	135.4
Total	189.7	182.3	189.7	182.3
Bonus issue		7.4		7.4
Conversion of debentures	0.0	0.0	0.0	0.0
Share capital on 31 Dec.				
Series A	48.8	48.8	48.8	48.8
Series B	140.9	140.9	140.9	140.9
Total	189.7	189.7	189.7	189.7
Share premium reserve				
Share premium reserve on 1 Jan.	45.5	52.9	45.5	52.9
Bonus issue		-7.4		-7.4
Issue premium	0.0	0.0	0.0	0.0
Share premium reserve on 31 Dec.	45.6	45.5	45.6	45.5
Other reserves				
Other reserves on 1 Jan.	74.4	64.2		
Transfers from retained earnings/to retained earnings	1.3	-1.9		
Extra dividend distribution in Sanitec shares	-21.2			
Translation differences and other changes	0.3	12.1		
Other reserves on 31 Dec.	54.8	74.4		

	Group		Parent company	
	2000	1999	2000	1999
Retained earnings				
Retained earnings on 1 Jan.	399.6	326.0	381.8	303.8
Ordinary dividend distribution	-27.1	-20.1	-27.1	-20.1
Extra dividend distribution in Sanitec shares	-35.9	-23.0	-14.2	-6.5
Extra dividend distribution in cash	-1.2	-0.5	-1.2	-0.5
Taxes on distributed Sanitec shares	-35.5	-15.9	-35.5	-15.9
Reversal of revaluation	-3.7	-2.8	-3.7	-2.8
Change in deferred tax liability on revaluation	0.9	0.8		
Transfers to other reserves/from other reserves	-1.3	1.9		
Net change in translation differences	-7.6	-4.1		
Other changes	-0.7	7.2		
Profit/loss for the year	213.2	130.1	180.4	123.8
Retained earnings 31 Dec.	500.7	399.6	480.5	381.8
Distributable equity				
Retained earnings 31 Dec.	500.7	399.6	480.5	381.8
Voluntary provisons and depreciation difference	-45.5	-58.8		
Deferred tax liability	13.7	17.4		
Undistributable share issue gains	-37.8	-54.3		
Distributable equity	431.1	303.9	480.5	381.8
16. Convertible subordinated debentures	117.2	117.2	117.2	117.2

Main terms:

* Two issues of convertible subordinated debentures, each carrying principal of FIM 350 million at the date of issue.
* Should Wärtsilä Corporation be put into liquidation or become bankrupt, the principal of the loan shall rank junior to Wärtsilä Corporation's other obligations (and equal to the Company's other equivalent loans raised to strengthen shareholders' equity).
* The loans are dated on 24 March 1994. The notes are not collaterilized and are perpetual.
* Wärtsilä Corporation is entitled to pay back the principal with interest at any time from 2 May 2004 assuming that the Company and the Group still have distributable equity after making the payment. Furthermore, Wärtsilä Corporation is entitled to pay back the principal on the same terms if the share price exceeds the conversion price by at least 40 percent, in which case note holders are entitled to convert their notes to Company shares before payback.
* The notes shall pay fixed interest of 7.8 percent until 2 May 2004, and thereafter a rate of interest to be fixed annually which shall exceed the 12-month Euribor rate by five percentage points.
* Interest may be paid annually only to the extent that the payments do not exceed the distributable equity shown in the most recent approved financial accounts. Any interest left unpaid shall remain the liability of the Company. Interest is paid before dividend.
* Each bond of nominal value FIM 10,000 convertible into Series A shares may be exchanged for 44 Series A shares and 44 Series B shares. The aggregate conversion price of one Series A share and one Series B share is EUR 38.22 (FIM 227.25).
* Each bond of nominal value FIM 10,000 convertible into Series B shares may be exchanged for 88 Series B shares. The aggregate conversion price of two Series B shares is EUR 38.22 (FIM 227.25).
* The conversion right commenced on 1 June 1994 and the annual period of conversion shall extend from January 2 to November 30 inclusive. The conversion right will end 14 days prior to the maturity of the notes.
* By 31 December 2000 altogether 308 Series A shares and 1,804 Series B shares had been converted. This represents a loan capital of FIM 240,000 and by this amount the principal has decreased.

	Group		Parent company	
	2000	1999	2000	1999
17. Provisions				
Provisions for pensions	42.6	76.6	3.4	3.6
Provisions for taxation	2.1	10.7	1.4	1.4
Other provisions:				
Internal restructuring		48.8		
Foreseeable losses and cost reservations	18.0	11.6		
Litigation	11.1	4.9		
Other	35.6	20.8	2.6	2.6
Other provisions, total	64.7	86.1	2.6	2.6
Provisions, total	109.4	173.4	7.4	7.6
Change in provisions	-64.0	70.6	-0.2	-0.1

	Group 2000	Group 1999	Parent company 2000	Parent company 1999
18. Liabilities				
Long-term				
Non interest-bearing	48.8	68.4		
Interest-bearing	245.7	403.1	101.0	159.1
Total	294.5	471.5	101.0	159.1
Current				
Non interest-bearing	899.7	928.2	17.0	45.3
Interest-bearing	239.3	391.2	54.7	3.6
Total	1,139.0	1,319.4	71.7	48.9
Bonds				
1994-2001, 6-month Euribor	50.5	50.5	50.5	50.5
1994-2002, 6-month Euribor	4.2	4.2	4.2	4.2
Total	54.7	54.7	54.7	54.7
Bond with warrants 1996	0.0	0.0	0.0	0.0

Main terms:
* Principal FIM 180,000.
* Each FIM 1,000 bond carries a warrant to subscribe for 1,200 Series B shares, nominal value EUR 3.50, for a subscription price of EUR 13.49 (FIM 80.21) per share.
* The loan is dated on 2 May 1996. The conversion period commenced on 1 September 1996 and will end on 2 May 2003, on which date the principal will also be repaid.
* Annual interest on bonds is equivalent to the Bank of Finland's base rate minus 1 percentage point.
* 34 executives have subscribed for the loan.

Long-term debt with maturity profile

	Bonds	Bank loans*	Pension loans	Other loans	Total	Maturing credit facilities
2001	50.5	6.0	6.5	0.1	63.1	16.0
2002	4.2	13.4	6.6	2.5	26.7	119.0
2003		134.4	6.5	6.4	147.4	8.0
2004		31.9	5.9	0.1	38.0	183.0
2005-		0.5	5.3		5.8	60.0
2006		3.4	22.0	2.4	27.9	20.0
Total 31 Dec.2000	54.7	189.6	52.9	11.6	308.8	406.0
Total 31 Dec.1999	54.7	303.6	59.5	5.9	423.7	347.0

* Including Revolving Credit loans, which can be repaid and drawn again.

Division of long-term loans by currency	31 Dec. 2000	31 Dec. 1999
EUR	82 %	78 %
USD	15 %	17 %
SEK	2 %	2 %
Other currencies	1 %	3 %

	Group 2000	Group 1999	Parent company 2000	Parent company 1999
19. Specification of deferred tax liabilities				
Based on appropriations	19,6	31,4	-	-
Based on consolidation	15,7	22,7	-	-
Based on balance sheets of Group companies	11,2	11,1	-	-
Total	46,5	65,2	-	-

Revaluations are included in the calculation of deferred tax liabilities.
Parent company's deferred tax has been included in the Group.

	Group 2000	Group 1999	Parent company 2000	Parent company 1999
20. Main items in accrued expenses and deferred income				
Warranty costs	70.8	75.5		
Project costs	99.7	88.4		
Income and other taxes	23.0	61.9	6.2	36.3
Personnel expenses	62.0	83.5	0.6	0.3
Interest and other financial items	21.2	25.5	7.2	7.5
Other	76.3	59.4	0.5	0.4
Total	353.0	394.2	14.5	44.5
21. Specification of current liabilities				
Liabilities to Group companies				
Trade payables	-	-	0.5	
Other current liabilities	-	-	2.0	0.2
Total	-	-	2.5	0.2
Liabilities to associated companies				
Trade payables	1.1	4.8		0.7
Other liabilities	0.7	1.2	0.7	
Accrued expenses and deferred income	0.1	0.1		
Total	1.8	6.1	0.7	0.7

22. Collateral, contingent liabilities and other commitments

	2000 Balance sheet debt	2000 Collateral	1999 Balance sheet debt	1999 Collateral
Group				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	12.7	24.3	16.9	24.5
Pension loans	41.8	47.8	46.8	47.8
Off balance sheet commitments		16.6		18.7
Total	54.5	86.7	63.7	91.0
Chattel mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	4.2	9.9	5.9	10.0
Off balance sheet commitments		21.4		1.9
Total	4.2	31.3	5.9	11.9
Other pledges given as collateral for liabilities				
Loans from credit institutions			0.3	0.1
Other liabilities				0.8
Off-balance-sheet commitments				1.1
Total			0.3	2.0
Parent company				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	14.9	17.0	16.9	17.0
Off-balance-sheet commitments		16.6		14.6
Total	14.9	31.6	16.9	31.6

	Group 2000	Group 1999	Parent company 2000	Parent company 1999
Collateral on behalf of Group companies				
Mortgages				1.3
Guarantees and contingent liabilities				
on behalf of Group companies	500.3	440.6	309.0	163.0
on behalf of associated companies		95.7		48.8
on behalf of others	2.1	4.9		0.3
Other commitments				
All pension liabilities are included in the balance sheet.				
Nominal amounts of rents according to leasing contracts				
Payable within one year	1.0	9.9		
Payable after one year	44.7	37.4		
Total	45.7	47.3		

23. Inner circle loans and commitments

There are no loan receivables 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.

24. Nominal values of derivative instruments on 31 December 2000

	Total amount	of which closed contracts
Interest rate options; purchased	43.0	
Interest rate options; written	32.2	
Interest rate swaps	246.8	
Foreign exchange forward contracts	1,270.1	121.5
Currency options; purchased	20.7	
Total	1,612.8	121.5

If all the above instruments were reversed (sold) at market prices at the year end, the net effect would be EUR 58.2 million.

25. Exchange rates

	Closing rates		Average rates	
	31 Dec.00	31 Dec.99	2000	1999
USD	0.93050	1.00460	0.92360	1.06580
GBP	0.62410	0.62170	0.60948	0.65874
SEK	8.83130	8.56250	8.44520	8.80750
NOK	8.23350	8.07650	8.11290	8.31040
DKK	7.46310	7.44330	7.45380	7.43550
CHF	1.52320	1.60510	1.55790	1.60030
JPY	106.92000	102.73000	99.47000	121.32000
SGD	1.61260	1.67310	1.58891	1.79555
INR	43.45400	43.67400	41.39633	45.63567

26. Shares and securities

Company, name and country		Share %	currency	Book value ‘000 Wärtsilä Corp. direct ownership	Indirect owned through a subsidiary
Subsidiaries					
Wärtsilä Technology Oy Ab	Finland	100.0	EUR	449,064	
Wärtsilä Finland Oy	Finland	100.0	EUR		100,912
Wärtsilä Operations Ltd Oy	Finland	100.0	EUR		84
Wärtsilä Nederland B.V.	The Netherlands	100.0	EUR		32,787
Wärtsilä Italia S.p.A.	Italy	100.0	EUR		128,660
Wärtsilä Danmark A/S	Denmark	100.0	EUR		9,631
Wärtsilä Sweden AB	Sweden	100.0	DKK		150,407
Wärtsilä Norway A/S	Norway	100.0	EUR		10,079
Wärtsilä Ibérica S.A.	Spain	100.0	EUR		3,875
Wärtsilä Portugal Lda.	Portugal	100.0	EUR		222
Wärtsilä Deutschland GmbH	Germany	100.0	EUR		507
Wärtsilä France S.A.S.	France	100.0	EUR		108,036
Wärtsilä UK Ltd.	Great Britain	100.0	EUR		5,393
Wärtsilä Ireland Ltd.	Irland	100.0	IEP		10
Wärtsilä Caspian Ltd	Azerbaijan	100.0	GBP		10
Wärtsilä Polska Sp.z.o.o.	Poland	100.0	EUR		547
Wärtsilä Greece S.A.	Greece	100.0	EUR		369
Wärtsilä Cyprus Ltd.	Cyprus	100.0	EUR		118
Wärtsilä-Enpa A.S.	Turkey	51.0	EUR		69
Wärtsilä North America. Inc.	USA	100.0	EUR		39,574
Wärtsilä Development & Financial Services Inc.	USA	100.0	USD		10,197
Wärtsilä Canada Inc.	Canada	100.0	USD		1,172
Wärtsilä de Mexico SA	Mexico	100.0	USD		4.405
Wärtsilä Caribbean. Inc.	Puerto Rico	100.0	USD		0
Wartsila Operations. Inc.	USA	100.0	USD		10
Wärtsilä Latin America Ltd.	Bermuda	100.0	EUR		704
Wärtsilä Chile Ltda.	Chile	100.0	USD		796
Wärtsilä Ecuador S.A.	Ecuador	100.0	USD		491
Wärtsilä Brasil Ltda.	Brazil	99.6	USD		306
Wärtsilä Colombia S.A.	Colombia	99.7	USD		34
Wärtsilä Peru S.A.	Peru	100.0	USD		107
Wärtsilä Argentina S.A.	Argentina	100.0	USD		446
Wärtsilä Venezuela. C.A.	Venezuela	100.0	USD		10
Wärtsilä Bolivia S.A.	Bolivia	95.0	USD		0
Wärtsilä Development & Financial Services Oy	Finland	100.0	EUR		18,800
Wärtsilä Singapore Pte Ltd.	Singapore	100.0	EUR		3,151
Wärtsilä China Ltd.	Hong Kong	100.0	EUR		3,095
Nippon Wärtsilä Diesel Co. Ltd.	Japan	100.0	EUR		701
Wärtsilä Korea Ltd.	South Korea	100.0	EUR		894
Wärtsilä Taiwan Ltd.	Taiwan	96.7	EUR		401
Wärtsilä Philippines Inc.	Philippines	100.0	EUR		645
P.T. Wärtsilä Indonesia	Indonesia	100.0	EUR		10,289
Wärtsilä Australia Pty Ltd.	Australia	100.0	EUR		545
Wärtsilä India Ltd.	India	51.0	EUR		11,952
Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0	EUR		3,713
Wärtsilä NSD Bangladesh Ltd.	Bangladesh	100.0	BDT		102
Wärtsilä Diesel Saudi Arabia Ltd.	Saudi Arabia	60.0	EUR		860
Wärtsilä Gulf FZE	United Arab Emirates	100.0	EUR		213
Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0	EUR		316
Wärtsilä Eastern Africa Ltd	Kenya	100.0	EUR		15
Wärtsilä Switzerland Ltd.	Switzerland	100.0	EUR		57,273
Wärtsilä France SA	France	100.0	EUR		55,045
Wärtsilä Energoservice Ltd.	Russia	100.0	EUR		858
Imatra Steel Oy Ab	Finland	100.0	EUR	46,611	
Imatra Kilsta AB	Sweden	100.0	EUR		7,257
Imatra Tooling AB	Sweden	100.0	SEK		4,900
Imatra Stahl GmbH	Germany	100.0	EUR		45
Imatra Steel Ltd.	Great Britain	100.0	EUR		65
Vulcan Insurance Ltd. [1]	Great Britain	100.0	EUR	336	
Wärtsilä Corporation, other subsidiaries (4)				32,831	
Wärtsilä Corporation, housing corporations (41)				2,709	
Total				531,551	

Company, name and country		Share %	currency	Book value '000 Wärtsilä Corp. direct Ownership	Indirect owned through a subsidiary
Associated companies					
Sanitec Corporation	Finland	46.7	EUR	37,901	
Cervuctum Oy [2]	Finland	31.3	EUR		
Wasa Pilot Power Plant Oy	Finland	49.9	EUR		1,679
Wartsila Navim Diesel S.r.l.	Italy	40.0	EUR		13
Wärtsilä Corporation (other)				1,342	
Total				39,243	
Other companies					
Assa Abloy AB (publ.)	Sweden	16.4	EUR	92,563	
Polar Real Estate Corporation	Finland	8.0	EUR	2,893	
Rautaruukki Corporation	Finland	0.1	EUR	59	
Sampo-Leonia Insurance Company Plc	Finland	0.6	EUR	3,798	
Sato-Yhtymä Oyj	Finland		EUR	1,853	
Power Partners Oy	Finland	19.5	EUR		820
Wärtsilä Corporation, other (31)				2,615	
Total				103,781	
Wärtsilä Corporation; total shares and securities				674,575	

A complete list of shares and securities in accordance with the Finnish Companies Act is included in the official financial statements. The profit/loss and shareholders´ equity is not reported for those housing companies that was not consolidated in the group accounts.

[1] Vulcan Insurance Ltd not consolidated as a subsidiary; profit EUR 0.2 million and shareholders´equity EUR 0.8 million in the financial year 1999.
[2] Cervuctum Oy not consolidated as an associated company; loss EUR -31.2 million and shareholders´equity EUR 5.0 million in the financial year 1999.

Proposal of the Board

On 31 December 2000 the consolidated retained earnings of the Group amounted to EUR 500,729,000 and included distributable funds totalling EUR 431,093,000. The Parent Company's net profit for the financial year amounted to EUR 180,371,614.21 and the retained earnings to EUR 300,110,240.42. The distributable funds of the Parent Company on 31 December 2000 amounted to EUR 480,481,854.63. The number of shares entitled to a dividend is 54,202,358. The Board of Directors proposes, that a dividend of EUR 0.65 (FIM 3.86) per share be paid i.e. totally EUR 35,231,532.70 and in addition an extra dividend having the value of EUR 2,00 (FIM 11,89) per share, totalling EUR 108,404,716.00. After this the undistributed retained earnings in the Parent Company will be EUR 336,845,605.93.

Helsinki, 14 February 2001

Robert G. Ehrnrooth　　Vesa Vainio

Georg Ehrnrooth　　Göran J. Ehrnrooth　　Jaakko Iloniemi

Paavo Pitkänen　　Christoffer Taxell

Ole Johansson
President and CEO

Auditors' report

to the shareholders of Wärtsilä Corporation

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the President and CEO of Wärtsilä Corporation for the year ended 31 December 2000. The annual accounts prepared by the Board of Directors and the President and CEO include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and the parent company's administration.

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

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

Helsinki, 15 February 2001
KPMG WIDERI OY AB

Mauri Palvi
KHT

Five Years in Figures

EUR mill.		2000	1999	1998	1997	1996
Net sales		2,706.8	2,700.0	2,602.6	2,572.8	1,961.0
of which outside Finland	%	96.5	95.2	95.5	95.1	95.8
Exports from Finland		1,337.2	1,008.1	972.4	890.1	798.4
Personnel on average		10715	15945	14021	13892	12150
of which in Finland		3352	3811	3867	3701	3603
Order book, Power Divisions		1,624.2	1,314.9	1,210.2	1,177.0	791.7
From the income statement						
Depreciation and write-downs		103.1	112.9	110.5	95.2	76.9
Share of profits/losses in associated companies		12.0	-10.1	-40.5	-13.6	-3.7
Operating profit		367.1	272.7	87.6	117.1	182.0
as a percentage of net sales	%	13.6	10.1	3.4	4.6	9.3
Net financial items		-31.0	-35.7	-42.7	-50.8	-31.6
as a percentage of net sales	%	-1.1	-1.3	-1.7	-2.0	-1.6
Profit before extraordinary items		336.1	237.0	44.9	66.3	150.4
as a percentage of net sales	%	12.4	8.8	1.7	2.6	7.7
Profit before taxes		315.7	234.5	41.4	66.1	155.9
as a percentage of net sales	%	11.7	8.7	1.6	2.6	8.0
Profit for the financial year		213.2	130.1	21.7	41.0	121.8
as a percentage of net sales	%	7.9	4.8	0.8	1.6	6.2
From the balance sheet						
Fixed assets		978.7	1,217.4	964.6	1,044.5	864.7
Current assets						
Inventories		539.0	667.7	679.8	588.7	460.7
Receivables		828.7	975.8	853.2	819.2	642.5
Cash and bank balances		118.9	110.3	83.9	122.4	86.8
Shareholders' equity		908.0	826.5	742.6	772.0	730.3
Minority interests		14.3	180.4	57.8	88.0	32.0
Preferred capital notes						78.0
Provisions		109.4	173.4	102.8	96.9	80.6
Interest-bearing liabilities		485.0	794.3	686.8	796.2	491.3
Non interest-bearing liabilities		948.5	996.6	991.4	821.8	642.5
Balance sheet total		2,465.3	2,971.2	2,581.5	2,574.8	2,054.6
Gross capital expenditure		207.7	263.8	163.7	282.6	223.9
as a percentage of net sales	%	7.7	9.8	6.3	11.0	11.4
Research and development expenses		81.4	86.9	86.6	93.5	57.4
as a percentage of net sales	%	3.0	3.2	3.3	3.6	2.9
Dividends paid for the financial year		35.2	27.1	20.1	24.9	24.9
Extra dividend		108.4	127.4	64.0		13.6
Dividends total [1]		143.6	154.5	84.1	24.9	38.5
Financial ratios						
Earnings per share (EPS)	euro	4.20	2.43	0.45	0.92	1.90
Diluted earnings per share	euro	3.87				
Dividend per share	euro	2.65[1]	2.85	1.55	0.46	0.71
Payout ratio	%	63.1[1]	117.3	344.4	50.4	37.5
Interest coverage [2]		7.4	4.8	2.9	2.9	4.2
Return on investment (ROI) [2]	%	25.4	20.1	9.6	10.0	17.4
Return on equity (ROE)	%	27.6	18.0	-0.4	6.7	17.6
Solvency ratio 1 [3]	%	35.1	31.4	28.3	30.1	32.1
Solvency ratio 2	%	40.2	35.5	33.2	35.0	38.0
Net Gearing 1 [3]		0.60	0.90	1.05	1.07	0.93
Net Gearing 2		0.40	0.68	0.75	0.78	0.63
Equity per share	euro	14.59	13.09	11.60	12.11	11.44

[1] Proposal of the Board of Directors 2000. Financial ratios calculated from total amount of dividend.

[2] The change in accounting practice in the Group's financing company applying to a portion of foreign currency forward contracts applies to the financial ratios from 1998 onwards.

[3] Please refer to the Calculation of Financial Ratios on page 76.

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 [1]

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

Gearing [2]

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

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)

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

[1] Solvency ratio 2, shareholders' equity includes subordinated debentures (EUR 117.2 mill.)
[2] Net gearing 2, shareholders' equity includes subordinated debentures (EUR 117.2 mill.)

CURRENCY DISTRIBUTION 2000	Invoiced sales	Operating costs
euro zone	41.5%	54.1%
USD	33.2%	20.8%
SEK	3.2%	1.1%
NOK	3.5%	2.2%
Other EU	5.1%	4.9%
Other	13.6%	16.9%
	100.0%	100.0%

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

Financial Risk Management

Wärtsilä's Treasury function has two main objectives. It arranges adequate funding of the Group's underlying operations on competitive terms using debt and equity financing instruments. Treasury also hedges the Group and various companies against unfavourable changes in the financial markets and minimizes the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and shareholders' equity.

The risk policy set by the Board of Directors defines the goals, responsibilities and limits of the company's financing and risk management activities. Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

FOREIGN EXCHANGE RISK

Roughly 97% of Wärtsilä's net sales and 36% of its production volume are derived outside Finland. Some 42% of sales and 54% of operating costs took place in euro. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: the USD, GBP and euro.

Foreign exchange risks are managed by each Group company separately in several local currencies. Significant commercial currency surpluses and deficits, like fixed purchase and sales contracts, are hedged. The hedges reach out to 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 include receivables and payables denominated in foreign currencies.

The instruments, and their nominal values, used to hedge the Group's foreign exchange exposure are listed in the notes to the financial statements, page 70. Since Wärtsilä has subsidiaries outside the euro zone, the Group's non-restricted shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2000 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 162 million, of which EUR 146 million was hedged. The translation difference arising from consolidation of the foreign subsidiaries in 2000 amounted to EUR 1.3 million. The corresponding exchange rate difference from hedging was EUR 1.0 million, which has been taken directly to shareholders' equity in the consolidated financial statements.

INTEREST RATE RISK

The interest rate risk represents primarily changes in market rates of the loan portfolio. Wärtsilä hedges its interest rate exposure by using derivative instruments such as interest rate swaps, forwards and options. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis. 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 2000 the ratio was 30% after adjustment for interest rate swaps.

Interest-bearing loan capital totalled EUR 602 million inclusive the EUR 117.2 million convertible subordinated debentures at the end of 2000. The average interest rate was 5.8%, and the average refixing time 16 months. The maturity profile, division by currency and other information on debt is provided on page 68. At the end of 2000 the effect of a 1 percentage point parallel change in the yield curve on the value of the net debt portfolio, excluding the subordinated convertible bond of EUR 117.2 million, would have been EUR 8 million.

LIQUIDITY AND REFINANCING RISK

Wärtsilä Group's liquidity is good. To maintain financial flexibility, Wärtsilä had EUR 315 million in non-utilized committed credit facilities and substantial Commercial Paper programmes. Wärtsilä minimizes its refinancing risk by even and sufficiently long maturity schedule. Information on the Group's loans is given on page 68.

CREDIT RISK

The management of credit risks associated with ordinary commercial activities is the responsibility of the Group companies.

Major trade and project finance credit risks are minimized by sharing these risks between banks, insurance companies, export credit organizations and suppliers. The company's long-term suppliers credits total EUR 83.2 million. No losses were recorded on suppliers credits.

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

EQUITY PRICE RISK

Wärtsilä has certain investments in publicly quoted shares (see page 51). The market value of these shares at the end of 2000 was EUR 1,455 million. The company also has equity investments in power plant special purpose companies totalling EUR 34.9 million.

Corporate Management

The Board of Directors is presented on page 9.

Ms Bodil Berggren,
born 1957. M Sc (Eng.). Chief Information Officer.
Mr Tom Eriksson,
born 1967. M Sc (Econ.). Vice President, Corporate Planning.
Ms Eeva Kainulainen,
born 1948. M Sc (Soc.Sc.). Vice President, Corporate Communications.
Mr Michel Kohler,
born 1945. M Sc (Eng.). Vice President, Head of Licensing.
Mr Stéphane Lhuillier,
born 1961. M Sc (Mech. Eng.). Vice President, Human Resources.
Mr Anders Söderholm,
born 1943. B Sc (Econ.). Senior Vice President, Internal Audit.
Mr Kari Tähtinen,
born 1946. Doctor of Technology. President of Imatra Steel Oy Ab.
Mr Pekka Virtanen,
born 1941. LLM. Senior Vice President, General Counsel.

BOARD OF POWER PLANTS DIVISION

Mr Pekka Ahlqvist,
born 1946. M Sc (Eng.). Group Vice President, Power Plants.
Mr Alf Doktar,
born 1953. B Sc. Area Director, Asia.
Mr Stefan Gros,
born 1952. M Sc (Chem. Eng.). Licentiate in Technology. Vice President, Technology.
Mr Jan-Erik Nordmyr,
born 1957. M Sc (Econ.). Vice President, Finance & Business Control.
Mr Nils Norrgård,
born 1947. B Sc (El.). Vice President, HFO Power Plants.
Mr Stefan Storholm,
born 1951. M Sc (Chem. Eng.). Area Director, Americas.
Mr Jyrki Uurtio,
born 1962. M Sc (Eng.). Vice President, Gas and Light Fuel Oil Power Plants.

BOARD OF MARINE & LICENSING DIVISION

Mr Mikael Mäkinen,
born 1956. M Sc (Eng.), Naval Architect. Group Vice President, Marine & Licensing.
Mr Vicente Iza,
born 1953. Naval Architect. Vice President, Product and Application Development.
Mr Michel Kohler,
born 1945. M Sc (Eng.). Vice President, Head of Licensing.
Mr Viking Norrgård,
born 1956. B Sc (Mec. Eng.). Vice President, Sales.
Mr Leif Rönnskog,
born 1946. B Sc. Vice President, Sales.
Mr Leif Sund,
born 1948. B Sc. Vice President, Marine Project Execution.
Mr Christoph Vitzthum,
born 1969. M Sc (Econ.). Vice President, Finance & Control.

BOARD OF SERVICE DIVISION

Mr Tage Blomberg,
born 1949. B Sc (Eng.). Group Vice President, Service and Operations.
Mr Pierpaolo Barbone,
born 1957. M Sc (Min. Eng.). Vice President, Field Service.
Mr Stefan Fant,
born 1955. B Sc (Mech.). Vice President, Operations & Maintenance.
Mr Werner Jungblut,
born 1965. Graduate of a commercial institute. Vice President, Technical Service.
Mr Christer Kantola,
born 1952. B Sc (Mech.). Vice President, Service.
Ms Eva-Stina Stén,
born 1967. M Sc (Econ.). Vice President, Finance & Control.
Mr Ben Wijkamp,
born 1962. M Sc (Econ.), B Sc (Eng.). Vice President, Parts.

BOARD OF TECHNOLOGY DIVISION

Mr Matti Kleimola,
born 1946. Lic. Sc (Tech.). Prof., CTO, Group Vice President, Technology and Environment.

Mr Ingemar Nylund,
born 1959. B Sc Vice President. Gas Engines.

Mr Carl-Erik Rösgren,
born 1948. B Sc Vice President. Engine Design.

Mr Rolf Vestergren,
born 1948. B Sc (Mech.). Vice President, Engine Performance and Environmental Technology.

Mr Kent Åstrand,
born 1965. M Sc (Mech. Eng.). Vice President, Automation.

BOARD OF MANUFACTURING DIVISION

Mr Sven Bertlin,
born 1944. B Sc (Econ.). Executive Vice President, Group Vice President of Manufacturing, Quality and Purchasing.

Mr Kim Backman,
born 1959. B Sc. Vice President, Sourcing.

Mr Erik Pettersson,
born 1953. B Sc. Vice President, Production.

Mr Hans Westö,
born 1947. M Sc. Vice President, Business Control.

BOARD OF MANAGEMENT OF IMATRA STEEL OY AB

Mr Kari Tähtinen,
born 1946. Doctor of Technology. President of Imatra Steel Oy Ab.

Mr Magnus Baarman,
born 1964. M Sc (Chem. Eng.). General Manager of Imatra Steel Billnäs Spring Works.

Mr Kalevi Laaksonen,
born 1943. B Sc (Econ.). Corporate Controller.

Mr Kalevi Taavitsainen,
born 1949. M Sc (Eng.). General Manager of Imatra Steel, Imatra Steel Works.

Mr Dan-Åke Widenberg,
born 1949. M Sc (Econ.). Managing Director, Imatra Kilsta AB.

PERSONNEL BY COUNTRY	31 Dec. 2000	31 Dec. 1999[1]
Finland	3,373	3,327
Italy	1,244	1,379
France	1,044	321
Netherlands	821	820
Sweden	503	536
Switzerland	396	403
Norway	335	447
Denmark	179	188
Great Britain	149	144
Spain	133	133
Germany	60	64
Portugal	43	47
Poland	18	15
Other Europe	82	88
Europe	8,380	7,912
India	688	680
Singapore	118	119
China, Hong Kong	99	105
Other Asia	562	525
Asia	1,467	1,429
USA	238	34
Other Americas	373	371
Americas	611	605
Other countries	106	77
Total	10,564	10,023

[1] Excl. Sanitec; Incl. Operations personnel.

Main Releases 2000 in Brief

17 January 2000
Sanitec acquired 99.9% of the shares in Sphinx Gustavsberg
In December 1999 Sanitec acquired 97.8% of the share capital in N.V. Koninklijke Sphinx Gustavsberg. During the post tendering period ending on 14 January 2000 Sanitec was offered an additional 194,017 shares and depository receipts, bringing the total ownership to 99.9%. Sphinx Gustavsberg was de-listed from the Amsterdam Stock Exchange on 14 January 2000.

20 January 2000
Agreement to split the operations of Cummins Wärtsilä signed
The agreement on the split of Cummins Wärtsilä's operations has been signed by the owners Wärtsilä NSD and Cummins Engine Company. The split came into force immediately.

11 February 2000
Berndt Brunow begins as President of Sanitec in March
M Sc (Econ) Berndt Brunow(49), Executive Vice President of Sanitec, will start as President of Sanitec during March 2000 according to plan. M Sc (Eng) Henrik Eklund resigns then from the President position and will retire before the end of the year 2000.

Sanitec's net sales grew by 10 percent, operating profit was EUR 81 million Sanitec's net sales in 1999 totalled EUR 630.0 (570.8) million, representing growth of 10.4% on the previous year. The operating profit improved on the previous year and was EUR 80.6 (77.4) million corresponding to 12.8% (13.6%) of the net sales. The lower profitability was caused by slow growth during the first four months of the year.

14 February 2000
Wärtsilä NSD and John Crane-Lips cooperate to supply total marine power systems
Wärtsilä NSD and John Crane-Lips, today signed a Letter of Intent covering the development, marketing and sales of total marine power systems. The objective is to sign the final co-operation agreement within the following two months.

16 February 2000
Metra's 1999 result before extraordinary items EUR 237.0 million
Metra Group's net sales in 1999 totalled EUR 2,700.0 million (2,602.6). The consolidated profit before extraordinary items was a distinct improvement on the previous year, EUR 237.0 (44.9) million. The Board of Directors proposes a dividend of EUR 0.50 per share and an additional dividend of about EUR 2.35 per share in the form of Sanitec shares.

Metra's result before extraordinary items contained substantial profits on asset sales and other non-recurring items, generating aggregate net income of EUR +174.5 million.

Metra becomes 100% owner of Wärtsilä NSD
Metra will acquire the 15,4% stake held by Fincantieri Cantieri Navali Italiani S.p.A. in Wärtsilä NSD Corporation. After the transaction Metra will be the 100% owner of Wärtsilä NSD.

Metra and Fincantieri have reached an agreement on the transaction which will be completed by the end of February, 2000. The acquisition price is EUR 100 million.

8 March 2000
Metra sells 5 mill. shares in Assa Abloy
Metra Corporation sold 5 million series B shares of Assa Abloy AB (publ.) on the Stockholm Stock Exchange for 940 million Swedish krona (EUR 111,5 million). The shares sold totalled 1.6% of Assa Abloy's stock. Metra will record a profit of approximately EUR 99.5 million on this sale.

23 March 2000
Metra's Annual General Meeting 23 March 2000
Metra's Annual General Meeting approved the financial statements and discharged the members of the Board of Directors and the President and CEO from liability for 1999. The dividend was decided to EUR 0.50 per share and an extra dividend of EUR 2.35 per share in the form of Sanitec shares will be distributed (1999: EUR 0.37 + EUR 1.18 per share).

Change in Metra's top management at year end
Metra's President and CEO, Mr Georg Ehrnrooth, has announced that he will exercise his right to retire at the age of 60 in November 2000. His successor will be Mr Ole Johansson (48) MSc (Econ.), who will also continue to hold his present position as President and CEO of Wärtsilä NSD Corporation.

The corporate functions of Metra and Wärtsilä NSD will be merged this year. This change is related to Metra's development, which has resulted in Metra's becoming an engineering group whose main business is Wärtsilä NSD.

14 April 2000
Metra's extra dividend paid - Sanitec an associated company
Metra has made the payment of the extra dividend, mainly in the form of Sanitec shares. The dividend payment date was 7 April 2000 and the dividend was booked on the shareholders' accounts on 10 April 2000.

The total value of the extra dividend was EUR 127,370,578.10 and the average quoted price of the Sanitec share on the Helsinki Exchanges on the payment date was EUR 11.59. On the basis of this, the number of distributed Sanitec shares was 10,885,549, and an additional EUR 1,207,064.50 was distributed in cash.

As a consequence of the dividend, Metra's ownership in Sanitec decreased from 64.2% to 46.7%, and Sanitec became an associated company instead of a subsidiary. Currently Metra holds 29,080,479 Sanitec shares.

19 April 2000
Changes in Metra management
Mr. Raimo Lind has been appointed Senior Vice President and CFO of Metra Corporation. He will succeed Mr. Timo Lehto who has been appointed Senior Vice President and CFO of Sanitec.

11 May 2000
Interim report January - March 2000
- Metra net sales EUR 756.0 (663.6) million during the first quarter.
- Profit before extraordinary items EUR 133.9 (15.2) million.
- Earnings per share EUR 1.54 (0.17).

20 June 2000
Wärtsilä NSD and John Crane-Lips sign cooperation agreement to supply total marine propulsion power systems
Metra Corporation's core division Wärtsilä NSD and John Crane-Lips have signed a cooperation agreement concerning the development, marketing and

supply of total marine propulsion power systems. It was agreed at the same time that Wärtsilä NSD's propeller production and propeller-related service business at Rubbestadsneset, Norway will be sold to John Crane-Lips.

9 August 2000
Metra to be renamed Wärtsilä
Metra Corporation's Board of Directors will propose to an extraordinary general meeting of shareholders on 13 September 2000 that Metra company name will be amended. The new name is Wärtsilä Oyj Abp in Finnish and Swedish, and Wärtsilä Corporation in English.

Group goals
The principal goal over the next few years is to further strengthen Wärtsilä's position in the global marine engine and power plant markets. The target of this activity is to achieve organic growth of 7% p.a. on average taking into account the impact of business fluctuations. Further growth will be achieved through acquisitions. The Group's profitability target is an operating profit of 7-8% of net sales. The target solvency ratio is raised to 40%. The Group also intends to distribute a normal annual dividend amounting to half of operative earnings per share.

Changing the company name to Wärtsilä is a logical step in Metra's structural evolution. It supports the Group's strategy and unifies the corporate image. At the same time it takes advantage of a name that has a long history in Finland and which today is also a recognized global brand. The Board proposes that the new name be adopted immediately after the decision of the extraordinary meeting has been registered.

The company's other well-known brand name Sulzer will continue to be used alongside the brand name Wärtsilä. Imatra Steel's operations and name will continue unchanged.

10 August 2000
Interim Report January - June 2000
Metra's consolidated net sales totalled EUR 1,352.1 (1,327.2) million. The operating profit was EUR 165.3 (48.9) million, or 12.2% (3.7%) of net sales and included a profit of EUR 99.1 million on the sale of five million Assa Abloy shares. The comparable proforma operating profit last year did not contain any corresponding items. The profit before extraordinary items was EUR 150.4 (30.4) million. Earnings per share totalled EUR 1.70 (0.35).

4 September 2000
Metra sells 7 mill. shares in Assa Abloy
Metra sold 7 million series B shares of Assa Abloy AB (publ.) on the Stockholm Stock Exchange for 1,239 million Swedish krona (EUR 147,3 million). Metra will record a profit of approximately EUR 130 million on this sale.

13 September 2000
Ole Johansson appointed President and CEO of Metra
Metra's Board of Directors today approved the resignation of President and CEO Georg Ehrnrooth and appointed Mr Ole Johansson MSc (Econ.)(49) President and CEO of Metra. Mr Ehrnrooth will retire from the company from the beginning of the year 2001.

Metra´s general meeting approved new company name
Metra Corporation´s extraordinary General Meeting of Shareholders decided on 13 September, 2000 to change the name of the Company. The new name is Wärtsilä Oyj Abp in Finnish and Swedish and Wärtsilä Corporation in English. Art. 1 of the Articles of Association was amended accordingly.

22 September 2000
Change of Metra's name registered
The amendment of Metra Corporation´s company name and Art. 1 of the Articles of Association was entered into the Finnish Trade Register on 22 September 2000. The amendment has thereby become effective. The new name is Wärtsilä Oyj Abp in Finnish and Swedish and Wärtsilä Corporation in English.

The amendment will be implemented in the book-entry accounts on 22 September 2000 and on the Helsinki Exchanges as of 25 September 2000. Metra´s A share will then become Wärtsilä´s A share and Metra´s B share becomes Wärtsilä´s B share. The use of the new trading codes WRTAV and WRTBV will commence at the same time. The amendment does not require the shareholders or holders of Metra´s convertible debentures or bonds with warrants to take any action.

26 September 2000
New Board of Management of Wärtsilä Corporation
Wärtsilä's Board of Directors has appointed the Group's Executive Vice President and other members of the Board of Management. Mr Sven Bertlin, B.Sc. (Econ.), born 1944, has been appointed Executive Vice President and Deputy to the President of Wärtsilä Corporation.

The members and their areas of responsibility in the company's Board of Management are:
Mr Ole Johansson, B.Sc. (Econ.), born 1951, President and CEO;
Mr Sven Bertlin, B.Sc. (Econ.), Executive Vice President, Manufacturing, Quality and Purchasing;
Mr Christian Andersson, LLM, born 1944, Group Vice President, Administration, Human Resources, Secretary to the Board of Management;
Mr Tage Blomberg, B.Sc. (Eng.), born 1949, Group Vice President, Service and Operations;
Mr Pekka Ilvonen, M.Sc. (Eng.), MBA, born 1954, Group Vice President, Power Plants;
Mr Matti Kleimola, Lic. Eng., born 1946, Group Vice President, Technology and Environment;
Mr Raimo Lind, M.Sc. (Econ.), born 1953, Group Vice President, Finance and Treasury;
Mr Mikael Mäkinen, M.Sc. (Eng.), Naval Architect, born 1956, Group Vice President, Marine and Licensing.

Imatra Steel has its own Board of Directors chaired by Mr Sven Bertlin, the Group's Executive Vice President.

9 November 2000
Interim Report January-September 2000
Wärtsilä's net sales totalled EUR 1,950.0 (1,931.2) million. The operating profit was EUR 318.6 (191.2) million, which included a EUR 225.4 million profit on the sale of 12 million Assa Abloy shares. The proforma operating profit for the comparable period included a profit of EUR 21.4 million on the sale and issue of Assa Abloy shares as well as a profit of EUR 99.8 million on corresponding transactions of Sanitec shares. The profit before extraordinary items was EUR 285.2 (160.6) million. Earnings per share were EUR 3.53 (1.83).

Glossary

Terms frequently used in the publications of the Power Division.

Baseload = Power plants running for more than 8,000 hours/year, i.e. generating power for continuous use.

cgt (compensated gross tonnage) = The compensated draught of a ship, i.e. the ship's draught (depth of a loaded vessel below the waterline) adjusted (compensated) by a factor to render the amount of work at the yard equivalent for different types and sizes of ship.

CO_2 = Carbon dioxide. A component in an engine's exhaust gases always formed when fossil fuels are burned. A greenhouse gas in the atmosphere, which prevents thermal radiation entering the atmosphere reflection back into space.

Cogeneration = The simultaneous generation of electricity and heat. Also called Combined Heat and Power = CHP. This method raises total efficiency to above 90% since the heat produced by power generation is recovered and used, for example, in industrial processes or to supply district heat.

Combined cycle technology = The use of two different power generation processes, e.g. fuel engines and steam turbines, in the same power plant. The second process utilizes the heat recovered from the first.

Common Rail = A method of fuel injection that eliminates the principle of one pump/cylinder. The Common Rail is constructed from a series of accumulators inter-connected by small-bore piping. The injection pressure is adjusted as desired and the injection timing (start and stop) controlled electronically. Wärtsilä has used Common Rail technology to develop the "smokeless engine", which reduces also NO_x and CO_2 emissions.

DCC (Diesel Combined Cycle) = Technology utilizing both the shaft output and thermal output of a diesel engine. The thermal output is used to produce steam to drive a steam turbine, for example.

DWI (Direct Water Injection) = A method in which water is injected into the engine cylinders prior to fuel injection, in order to reduce nitrogen oxide emissions. Direct water injection reduces the combustion temperature and therefore the formation of nitrogen oxides.

dwt (dead weight) = The difference between the loaded and the unloaded weight of a ship, i.e. the combined weight of its cargo and fuel.

EnviroEngine = A smokeless diesel-electric propulsion package developed jointly by Wärtsilä and Carnival Corporation for marine vessels. Combines the use of Common Rail and DWI technologies. Since both methods are electronically controlled, the EnviroEngine offers an optimized combination of engine efficiency, smoke emissions and NO_X emissions.

Four-stroke engine = An engine in which the pistons complete their working strokes every second engine revolution.

FSN (Filter Smoke Number) = A unit defining the amount of smoke. When measuring, exhaust gas is fed through a special filter element, the colour of which is then analyzed optically.

Gas compression = The raising of gas pressure and density for further processing. This makes it possible to use smaller storage tanks or pipes to transport a given quantity of gas.

grt (gross register ton) = The gross draught of a vessel, i.e. its total enclosed volume converted to tons.

GTCC (Gas Turbine Combined Cycle) = Technology utilizing the shaft and thermal outputs of a gas turbine.

HFO = Heavy fuel oil.

High-powered special vessels = Passenger or naval vessels able to travel at high speeds.

High-speed engine (diesel/gas) = An engine running at speeds over 1.200 rpm (revolutions per minute).

Hot combustion = A method that raises the temperature of the engine exhaust gases by reducing air intake and isolating the combustion chamber. This increases total efficiency and enhances the engine's suitability for combi technology.

IMO = The International Maritime Organization.

IPP (Independent Power Producer) = A private corporation producing electricity for sale on a national grid. Also an IPP power plant.

Lean burn gas engine = A gas-fired engine in which the gas-air mixture in the engine's cylinders contains substantially more air (roughly the double) than required for complete combustion of the gas. The over-abundance of air achieves high output and efficiency combined with low nitrogen oxide emissions.

Licensee = A company authorized to manufacture under licence and that pays royalty fees on the products sold. Wärtsilä's low-speed Sulzer engines are mainly manufactured under licence.

Load management = Meeting varying demand for power, e.g. producing more energy when required.

Low NO_x technology = A method for reducing nitrogen oxide emissions that also raises engine efficiency. Emission levels are reduced by regulating the combustion temperature in the cylinders and the duration of fuel injection.

Low-speed engine = An engine running at speeds below 300 rpm.

Medium-speed engine (diesel/gas) = An engine running at speeds of 300-1.200 rpm.

Multi-fuel engine = A Wärtsilä engine running on both gaseous and liquid fuels. (Engines denoted DF and GD are multi-fuel engines).

Multi-purpose container carrier = A freighter carrying primarily containers but also able to transport other unitized cargo.

NO_x = Nitrogen oxides (NO and NO_2). Products formed during the combustion of nitrogen in both the fuel and combustion air. Nitrogen oxides contribute to local eutrophication.

nrt (net register ton) = The net draught of a vessel, i.e. the weight of its cargo in tons.

Offshore = Industrial activity at sea, e.g. drilling and pumping at an oil or gas well.

OpExS (Operative Excellence System) = A Wärtsilä program that seeks to enhance operational excellence throughout the production chain. The aim is to raise productivity through higher quality. Covers quality, environmental, occupational health and safety issues.

Orimulsion® = A bituminous mixture of crude oil and water resembling road asphalt and produced in Venezuela. A considerably cheaper fuel than heavy fuel oil.

Panamax vessel = A vessel whose main dimensions (beam/length/draught) are limited to enable the vessel to negotiate the Panama Canal.

Post-panamax vessel = A vessel too large for the Panama Canal. Generally refers to cruise ships and large container ships.

Power Plant Operations = (abbr. Operations) A Wärtsilä unit specializing in the operation and maintenance (O&M) of power plants.

Propulsion control system = The machinery needed to control and manage a ship's propulsion train.

Propulsion package = The propulsion train (propeller, reduction gear, engine, etc.) used to drive a ship.

RoPax vessel = RoRo + passengers, a ship equipped to carry a small number of passengers in addition to freight.

RoRo vessel = Roll-On/Roll-Off, a ferry or ship designed for entry and exit of vehicles.

SCR (Selective Catalytic Reduction) = A method to reduce NOx emissions using a catalytic converter fitted after the engine. The catalytic converter requires the addition of an ammonia or a urea solution to the exhaust gases.

Semi-submersible vessel = A vessel designed to be partially submerged to perform a specific task (e.g. semi-submersible oil or gas drilling rigs).

Shaft output = The power output developed by the engine's crankshaft.

Single cycle = Power generation using only a thermal power plant.

SO_2 = Sulphur dioxide. Formed by combustion of sulphur when burning sulphur-containing fuels. Sulphur dioxide contributes to eutrophication.

Traditional fuel injection = Mechanically controlled fuel injection. Each engine cylinder has its own fuel injection pump and all the pumped fuel is fed directly into the cylinder.

Turbocharging = The pressure of the air fed into the cylinder is raised using the energy in the engine's exhaust gas. This increases the amount of air in the cylinder, allowing injection of a higher quantity of fuel for greater output.

Turnkey power plant = A power plant delivered to the customer ready for operation.

Two-stroke engine = An engine in which the pistons complete their working strokes every engine revolution.

VLCC tanker = Very Large Crude Carrier, an ocean-going supertanker designed to carry extremely large amounts of crude oil (> 300.000 dwt).

Financial 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 Corporation 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 therein.

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