WÄRTSILÄ

INTERIM REPORT

'06

JANUARY-JUNE

APRIL-JUNE ORDER INTAKE GREW 41.4% – PROFITABILITY ON TRACK AND DEMAND EXPECTED TO CONTINUE ON A GOOD LEVEL DURING REST OF THE YEAR

SECOND-QUARTER HIGHLIGHTS

- Order intake EUR 1,190.1 million (841.8), growth 41.4%
- Net sales from comparative operations EUR 845 million (655.2), growth 29.0%
- Operating income from comparative operations EUR 70.2 million (43.6), growth 61.0%
- Profitability improved to 8.3% (6.7)
- Capital gain of EUR 123.9 million from sales of Assa Abloy shares
- Agreement to sell Ovako signed in July

HIGHLIGHTS OF THE REPORTING PERIOD 1-6/2006

- Order intake EUR 2,213.5 million (1,519.8), growth 45.6%
- Order book total EUR 3,772.1 million (2,267.9), growth 66.3%
- Net sales from comparative operations EUR 1,436.9 million (1,139.0), growth 26.2%
- Operating income from comparative operations improved to EUR 106.1 million (72.9), growth 45.7%
- Profitability improved to 7.4% (6.4)
- EPS increased to EUR 2.15 (0.73), 0.97 euros refers to Assa Abloy share sales
- Profitability estimate for full year unchanged

REVIEW PERIOD JANUARY – JUNE 2006 IN BRIEF

Wärtsilä's business comprises the Ship Power, Services and Power Plants businesses. Imatra Steel, reported as the company's second business segment in 2005, was transferred to Oy Ovako Ab. For comparability reasons net sales and operating income are presented without Imatra Steel below.

The acquisition of Total Automation Pte Ltd was closed on 30 June 2006. The balance sheet of Total Automation has been consolidated as of 30 June 2006. The acquisition price was EUR 59.7 million. Initially a goodwill of EUR 37.4 million is recognized. The final allocation of the purchase price will be completed by the end of 2006.

MEUR	4-6/2006	4-6/2005	Change%
Net sales	845.0	655.2	29.0%
Operating income	70.2	43.6	61.0%
% of net sales	8.3%	6.7%	
Income before taxes	204.1[2]	50.2[1]	
Earnings / share, EUR	1.60	0.40	

MEUR	1-6/2006	1-6/2005	Change%	2005
Net sales	1,436.9	1,139.0	26.2%	2,520.3
Operating income	106.1	72.9	45.7%	202.5
% of net sales	7.4%	6.4%		8.0%
Income before taxes	244.1[2]	92.5[1]		212.4
Earnings / share, EUR	2.15	0.73		1.80
Interest-bearing net debt at end of period	293.4	432.4		255.9
Gross capital expenditure	115.7	175.0		231.1

[1]The figure in the comparison period includes Imatra Steel's pre-tax profit of EUR 21.9 million.

[2]The first-half year result 2006 includes Wärtsilä's share of Ovako's profit after taxes, EUR 14.8 million and a capital gain of EUR 123.9 million from the sales of Assa Abloy B shares.

MARKET DEVELOPMENT

Demand in the shipbuilding industry remained strong during the review period. By the end of June 2006 1,171 (1,413) vessels were ordered. All energy related segments, such as offshore and tankers as well as LNG, were highly active but some recovery could also be seen during the second quarter in other segments.

China continued to grow in the shipbuilding market. During the first six months shipyards in China have taken 31% of all contracts placed worldwide in terms of number of vessels. They are followed by South Korea with 27%, Europe approximately 19% and Japan 11%. Measured in DWT the Koreans have the marketshare with 41% of orders, followed by China (approx. 30%) and Japan (approx. 20%).

In Power Plants the market situation has remained good in all business segments: baseload, industrial self-generation and grid stability. The market continued to be active on a global basis.

ORDER INTAKE AND ORDER BOOK

The order intake for Wärtsilä during the first six months of 2006 totalled EUR 2,213.5 million (1,519.8), representing growth of 45.6%. In the second quarter the order intake amounted to EUR 1,190.1 million (841.8), which was 41.4% higher than in the corresponding quarter of 2005. Most new orders during the second quarter were registered in the Ship Power business, where the order intake was EUR 659.5 million (409.9) or 60.9% higher than one year earlier. Significant orders were received in the offshore and LNG segments.

The second-quarter order intake for the Power Plants business grew by 96.0% and totalled EUR 242.9 million. The order intake for both oil-fired and gas-fired power plants increased during the quarter. The majority of the new orders were orders for oil-driven power plants, a segment largely dominated by Wärtsilä.

Wärtsilä's order book at the end of the review period again reached an all-time high, EUR 3,772.1 million (2,267.9), up 66.3% on the previous year.

Order intake by business

MEUR	4-6/2006	4-6/2005	Change(%)
Ship Power	659.5	409.9	60.9%
Services	285.5	307.0	-7.0%
Power Plants	242.9	123.9	96.0%
Order intake, total	1,190.1	841.8	41.4%

MEUR	1-6/2006	1-6/2005	Change(%)	2005
Ship Power	1,161.0	708.8	63.8%	1,545.3
Services	668.4	564.4	18.4%	1,077.1
Power Plants	380.9	244.6	55.7%	865.2
Order intake, total	2,213.5	1,519.8	45.6%	3,491.1

Order book by business

MEUR	6/2006	6/2005	Change(%)	2005
Ship Power	2,504.6	1,230.8	103.5%	1,658.5
Services	377.3	371.2	1.6%	303.3
Power Plants	887.4	665.9	33.3%	943.9
Order book, total	3,772.1	2,267.9	66.3%	2,905.7

NET SALES AND PROFITABILITY

Growth in net sales continued strong. Net sales from comparative operations for January – June 2006 were up 26.2% year on year and amounted to EUR 1,436.9 million (1,139.0). Net sales from comparative operations for the second quarter of the year totalled EUR 845.0 million (655.2), representing growth of 29.0%.

The comparative operating income rose to EUR 106.1 million (72.9) for January – June 2006, which is 7.4% of net sales (6.4). Operating income for the second quarter was EUR 70.2 million (43.6), or 8.3% (6.7) of net sales.

Net sales by business

MEUR	4-6/2006	4-6/2005	Change (%)
Ship Power	244.9	153.0	60.1%
Services	304.4	266.8	14.1%
Power Plants	292.4	230.9	26.7%
Total	845.0	655.2	29.0%

MEUR	1-6/2006	1-6/2005	Change (%)	2005
Ship Power	396.5	286.9	38.2%	710.3
Services	604.1	504.7	19.7%	1,093.1
Power Plants	432.2	340.2	27.0%	710.3
Total	1,436.9	1,139.0	26.2%	2,520.3

Financial items amounted to -0.9 million (-9.4). Net interest totalled EUR -6.7 million (-9.7). Dividends received amounted to EUR 8.1 million (6.7). Other financial expenses decreased mainly due to changes in market value of derivative instruments.

Income before taxes amounted to EUR 244.1 million (92.5). The first-half year result 2006 includes a capital gain of EUR 123.9 million from the sales of 10 million Assa Abloy B shares and Wärtsilä's share of Ovako's profit after taxes, EUR 14.8 million. The figure in the comparison period includes Imatra Steel's pretax profit of EUR 21.9 million.

Taxes of the reporting period amounted to EUR -41.2 million (-24.1) out of which EUR -32.2 million related to the sales of Assa Abloy shares. Taxes include deferred tax assets totalling EUR +25.5 million related to previously recognized restructuring expenses

The earnings per share improved to EUR 2.15 (0.73), out of which 0.97 euros refers to Assa Abloy share sales.

FINANCING

Wärtsilä's cash flow from operating activities was EUR 48.6 million (-92.1).

Liquid funds reserves at the end of the period amounted to EUR 137.2 million (119.6). Net interest-bearing loan capital totalled EUR 293.4 million (432.4). The solvency ratio was 44.0% (39.7) and gearing was 0.25 (0.46).

CAPITAL EXPENDITURE

Gross capital expenditure in the first-half year totalled EUR 115.7 million (175.0), which comprised EUR 71.9 million (142.0) in acquisitions and investments in securities and EUR 43.8 million (33.0) in production and information technology investments. Depreciation amounted to EUR 35.5 million (35.2).

HOLDINGS

In May Wärtsilä sold 10 million B shares in Assa Abloy AB (publ) for EUR 148.1 million and has recorded a capital gain of EUR 123.9 million on the sale. After this transaction Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% (4.7)of the total. This holding has been booked in the balance sheet at its market value at the end of the reporting period, EUR 95.2 million.

During the review period Wärtsilä's holding in Oy Ovako Ab was 26.5%. The balance sheet value of this holding at the close of the period was EUR 123.2 million. The shareholder's loan of EUR 21.2 million was repaid by Ovako in April. Wärtsilä has recorded EUR 14.8 million as its share of this associated company's result for the period 1-6/2006.

In July Wärtsilä, SKF and Rautaruukki signed an agreement to sell the operating companies owned by Oy Ovako Ab. The transaction is subject to relevant regulatory approvals and is expected to close in September 2006.

PERSONNEL

Wärtsilä had 12,650 (12,100) employees on average during the reporting period and 12,918 (11,378) at the end of June. The largest personnel increases took place in the Services business.

CHANGES IN MANAGEMENT

Jaakko Eskola (47) MSc (Eng.) was appointed Group Vice President, Ship Power and a member of the Board of Management with effect from 1 April 2006.

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

Christoph Vitzthum (36) MSc (Econ.) was appointed Group Vice President, Power Plants and a member of the Board of Management with effect from 1 April 2006.

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

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

STRATEGY – ACTIONS TO SUPPORT GROWTH

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

STRATEGIC STEPS DURING THE REVIEW PERIOD

During the reporting period Wärtsilä took several steps which support these strategic objectives:

In February Wärtsilä acquired Aker Kvaerner Power and Automation Systems AS (AKPAS) from Aker Kvaerner. After becoming part of Wärtsilä the company was renamed Wärtsilä Automation Norway AS. The company has been consolidated as of 1 March 2006. The company supplies power and automation systems for the oil and gas, marine and industrial markets. It operates mainly in the North Sea region with major oil and gas companies and Norwegian shipyards. The acquisition supports Wärtsilä's growth strategy and it will enhance Wärtsilä's product portfolio and system integration capabilities in electric propulsion, power distribution and automation, especially in the oil and gas and offshore sectors.

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

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

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

Ciserv, the group of service companies owned by Wärtsilä, was integrated within Wärtsilä's service organization with effect from 1 May 2006. Operating under the name Wärtsilä Services, the business is one of the largest worldwide service organizations in the power and marine industries.

After the reporting period in July Wärtsilä acquired the German service company INTEC Injectortechnic GmbH. The acquisition enhances Wärtsilä's capabilities in fuel injection technology and services.

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

SHARES AND SHAREHOLDERS

30 June, 2006	A share	B share	Total
Number of shares	23,579,587	71,018,104	94,597,691
Number of votes	235,795,870	71,018,104	306,813,974

Number of shares traded			
1-6/2006	1,053,972	52,818,990	53,872,962

Foreign shareholders	30 June 2006	30 June 2005	31 Dec.2005
	28.8%	24.1%	24.1%

SHARE ON HELSINKI EXCHANGES

1 January – 30 June 2006	High	Low	Average[1]	Close
A share	36.82	24.60	30.70	32.50
B share	37.57	24.80	30.22	33.00

[1]Trade-weighted average price

MARKET CAPITALIZATION

	30 June 2006	30 June 2005	31 Dec.2005
MEUR	3,109.9	2,201.6	2,348.9

OPTION SCHEMES

The decision of Wärtsilä's annual general meeting to pay an extra dividend of 0.60 euros per share reduced the subscription price of the B share under Wärtsilä's 2001 and 2002 stock option schemes by the amount of extra dividend, as stipulated in the terms and conditions of these schemes. Hence the subscription price of shares based on the 2001 options is 16.10 euros per share and based on the 2002 options 8.90 euros per share.

ANNUAL GENERAL MEETING

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

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

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

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

Board of Directors

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

Audit Committee

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

Nomination Committee

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

Compensation Committee

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

BUSINESS REVIEW

SHIP POWER BUSINESS

MEUR	4-6/2006	4-6/2005	Change(%)
Net sales	244.9	153.0	60.1%
Order intake	659.5	409.9	60.9%

MEUR	1-6/2006	1-6/2005	Change(%)	2005
Net sales	396.5	286.9	38.2%	710.3
Order intake	1,161.0	708.8	63.8%	1,545.3
Order book, end of period	2,504.6	1,230.8	103.5%	1,658.5

Ordering activity continued very lively during the second quarter of 2006. The order intake for the quarter was EUR 659.5 million, more than 60% higher than in the corresponding period last year. The most significant orders in the second quarter were orders from three Korean shipyards for 26 LNG carrier installations, predominantly featuring Wärtsilä 50 dual-fuel engines for LNG carriers.

Offshore continued as another major segment in new orders. During the second quarter new orders received by Wärtsilä included among others the supply of 24 Wärtsilä 32 diesel generating sets. Besides the engines, Wärtsilä's propulsor machinery products, fixed and controllable pitch propeller and especially the steerable thruster segment, received numerous orders as well.

In the period from January to June the order intake was EUR 1,161.0 million (708.8) and the order book at the end of the period stood at EUR 2,504.6 million, showing a growth of 103.5% compared to the corresponding period in 2005.

Ship Power net sales totalled EUR 396.5 million (286.9) during the first six months of 2006, representing growth of 38.2% compared to the corresponding period in 2005. Second-quarter net sales amounted to EUR 244.9 million, growth of 60.1% compared to the second quarter of 2005.

Market shares

Wärtsilä's market share in medium-speed main engines remained on a very high level at 48% (46% at the end of the previous quarter). Both the offshore and gas carrier segments contributed to this favourable development. In auxiliary engines, Wärtsilä's share remained almost unchanged at 9% (10%). In low-speed engines Wärtsilä's share decreased from 27% to 21% due to low demand in big container vessels, the strongest area for the company. Wärtsilä's auxiliary engine factory in China, inaugurated at the end of June, will enhance the company's competitiveness in the auxiliary engine market.

SERVICES BUSINESS

	4-6/2006	4-6/2005	Change(%)
Net sales, MEUR	304.4	266.8	14.1%
Order intake	285.5	307.0	-7.0%

	1-6/2006	1-6/2005	Change(%)	2005
Net sales, MEUR	604.1	504.7	19.7%	1,093.1
Order intake	668.4	564.4	18.4%	1,077.1
Order book, end of period	377.3	371.2	1.6%	303.3
Personnel, end of period	7,537	6,839	10.2%	7,200

Net sales from the Services business increased to EUR 604.1 million (504.7) during the six first months of 2006, representing growth of 19.7% compared to last year. Organic growth represented 14%.

Sales and services for low-speed engines continued to rise. Also services of a project nature and automation services showed an increase in demand.

Wärtsilä's Services business will continue to grow by broadening the portfolio of support, operation, maintenance and repair services.

POWER PLANTS BUSINESS

MEUR	4-6/2006	4-6/2005	Change(%)
Net sales	292.4	230.9	26.7%
Order intake	242.9	123.9	96.0%
Order intake, MW			
HFO	381	188	102.8%
Gas	177	133	32.4%
BioPower, MWth	14	21	-32.7%

	1-6/2006	1-6/2005	Change(%)	2005
Net sales, MEUR	432.2	340.2	27.0%	710.3
Order intake	380.9	244.6	55.7%	865.2
Order intake, MW				
HFO	570	339	68.4%	1.134
Gas	283	289	-2.0%	924
BioPower, MWth	138	79	75.4%	117
Order book, end of period	887.4	665.9	33.3%	943.9

The Power Plants order intake for April – June 2006 almost doubled compared to the corresponding period last year. The total order intake for the second quarter amounted to EUR 242.9 million. Order intake for both oil-fired and gas-fired power plants increased during the quarter. The majority of the new orders were orders for oil-driven power plants, a segment largely dominated by Wärtsilä. The largest orders in this sector were received from Brazil, Antigua and Saudi Arabia. The largest orders for gas-driven power plants were received from Nigeria and Russia.

The order intake for January – June 2006 was 55.7 % higher than in the corresponding period last year.

As a result of the good order intake during the first half of 2006 the order book for the Power Plants business is EUR 887.4 million (665.9), which is 33.3% higher than at the end of the reporting period one year ago.

Net sales from Power Plants developed favourably during the review period and totalled EUR 432.2 million (340.2), marking growth of 27.0% compared to the corresponding period in 2005. Second-quarter net sales amounted to EUR 292.4 million, growth of 26.7% compared to the second quarter of 2005. During the second quarter 586 MW of power was delivered to the customers.

Good order intake is expected for both gas-and oil-fired power plants during the second half of this year.

ENGINE MANUFACTURING

The new factory for Wärtsilä Auxpac marine generating sets in China was inaugurated at the end of June by Wärtsilä Qiyao Diesel Co Ltd (Shanghai), the joint venture between Wärtsilä Corporation and the Shanghai Marine Diesel Engine Research Institute (SMDERI). The new assembly factory manufactures Wärtsilä Auxpac 20 and Auxpac 26 diesel generating sets for the growing shipbuilding market in China and also exports them to other countries through Wärtsilä's global sales network. Manufacturing of Wärtsilä Auxpac 26 will start at the end of 2007.

The investments in delivery centres in Trieste and Vaasa to ramp up production capacity are proceeding according to plan and will increase the production capacity as of mid-2007.

Many suppliers, especially in the areas of forgings and castings, are also currently investing in their production capacity. These focused efforts will enable Wärtsilä to meet the increased market demand.

The current order book projects a full workload for the factories up to the end of 2007.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In July Wärtsilä, SKF and Rautaruukki signed an agreement to sell the operating companies owned by Oy Ovako Ab to a company owned by the shareholders of Hombergh Holdings BV, WP de Pundert Ventures BV and Pampus Industrie Beteiligungen GmbH & Co. KG. The total price for the shares is approximately EUR 660 million, comprising a cash payment at closing of approximately EUR 535 million, a deferred cash payment of EUR 15 million to be paid in July 2008 and an interest-bearing vendor note of EUR 110 million to be paid within 3-6 years from closing. The transaction is subject to relevant regulatory approvals and is expected to close in September 2006. As a result of the transaction and the subsequent liquidation of Oy Ovako Ab, Wärtsilä will make a tax-free capital gain of approximately EUR 52 million. Wärtsilä will recognize the capital gain when the regulatory approvals have been received.

MARKET OUTLOOK 2006

High ordering activity during the first half of 2006 indicates yet another good year in global shipbuilding. The strong increase in oil prices together with rising interest rates are setting challenges for the world economy. Taken together these factors give reason to expect decreasing vessel order volumes in the long run, as earlier predicted. However, the very long order books of the shipyards and the fact that orders for delivery in 2009 are also filling up seem to be pushing decision-makers to order ships. Shipyards have order books of 3-4 years.

Also, the offshore industry, for example, is benefiting from high oil prices and therefore investment willingness looks likely to continue. The high oil prices are also encouraging increased use of gas and therefore investments in LNG carriers and supporting infrastructure will continue. A pick-up in the cruise industry indicates stable growth in passenger volumes and a need for new vessels for years to come.

All in all, Wärtsilä sees ordering activity continuing on a good level in the near future.

In the Power Plants market the situation remains good also the rest of the year. The need for electric power to fuel economic growth remains unchanged. Geographically demand is distributed evenly, which is reducing dependence on single markets. On a general level high oil prices increase the competitiveness of heavy fuel oil and gas power plants, and hence Wärtsilä's competitiveness, compared to light fuel oil plants. The impact of the oil price may vary in different geographical markets.

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

Wärtsilä stands well prepared for changes in the market as a result of the restructuring of its business and growth in the Services business.

WÄRTSILÄ'S PROSPECTS IN 2006 AND 2007

Wärtsilä maintains its forecast for 2006 unchanged. Demand in the ship power and energy markets looks likely to remain favourable for Wärtsilä for at least the following six months. Based on the strong order book Wärtsilä's net sales are expected to grow this year by as much as 20%. The profitability level reached in 2005 will remain. Wärtsilä´s net sales for 2007 are estimated to grow by approximately 10-15% compared to net sales 2006 based on the strong order book and the lively ordering activity. The capacity increase, available from mid-2007, will make further growth possible in 2008.

NOTES TO THE INTERIM REPORT

This interim financial report is prepared in accordance with IAS 34 (Interim Financial Reporting)

Use of estimates

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

Amended and new International Financial Reporting Standards (IFRS) as of January 1, 2006:

Wärtsilä has adopted the following amended and new standards as of January 1, 2006:

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

- Cash flow hedges of forecast intra group transactions, issued on April 14, 2005, effective date January 1, 2006.
- Fair value option, issued on June 16, 2005, effective date January 1, 2006.
- Financial guarantee contracts, issued on August 18, 2005, effective date January 1, 2006.

The adoption of these amendments has not had any material effect on the first January - June financial statements.

Amendment to IAS 19: Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, issued on December 16, 2004, effective date January 1, 2006. The amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts in the financial statements.

IFRIC 4 Interpretation: Determining whether an Arrangement contains a Lease, issued on December 2, 2004, effective date January 1, 2006. The adoption of this interpretation had an increase in investments for the first quarter of 7.8 million euros. The impact in income statement is not material.

CONDENSED INCOME STATEMENT

MEUR	1-6/2006	1-6/2005	2005
Net sales	1,436.9	1,257.5	2,638.8
Other income	10.0	11.7	26.8
Expenses	-1,305.3	-1,139.2	-2,369.7
Depreciations and impairment	-35.5	-35.2	-71.6
Operating result	106.1	94.8	224.3
Financial income and expenses	-0.9	-9.4	-23.4
Net income from assets available for sales	123.9		0.5
Share of profit of associates	15.0	7.1	10.9
Profit before taxes	244.1	92.5	212.4
Taxes for the period	-41.2	-24.1	-44.0
Profit for the financial period	202.9	68.3	168.4
Attributable to:			
Equity holders of the parent company	202.6	67.5	167.0
Minority interest	0.4	0.8	1.4
Total	202.9	68.3	168.4
Earnings per share attributable to equity holders of the parent company:			
Earnings per share, EUR	2.15	0.73	1.80
Diluted earnings per share, EUR	2.13	0.72	1.78

CONDENSED BALANCE SHEET

MEUR	30 June 2006	30 June 2005	31 December 2005
Non-current assets			
Intangible assets	593.6	544.9	541.1
Property, plant and equipment	291.5	281.4	272.9
Equity in associates	126.1	104.3	108.5
Investments available for sale	148.4	235.2	284.4
Deferred tax receivables	91.6	80.3	77.6
Other receivables	6.9	16.5	31.4
	1,258.1	1,262.6	1.315.8
Current assets			
Inventories	847.2	597.3	638.6
Other receivables	887.0	781.6	794.6
Cash and cash equivalents	137.2	119.6	119.6
	1,871.4	1,498.4	1,552.8
Assets	3,129.5	2,761.1	2,868.6
Shareholders' equity			
Share capital	331.1	325.5	329.4
Other shareholders' equity	834.9	676.8	823.8
Equity attributable to equity holders of the parent company	1,166.0	1,002.3	1,153.1
Minority interest	9.8	8.9	9.8
Total shareholder's equity	1,175.7	1,011.2	1,163.0
Non-current liabilities			
Interest-bearing debt	222.4	244.3	229.4
Deferred tax liabilities	55.8	68.9	78.8
Other liabilities	74.8	72.5	69.0
	353.0	385.6	377.2
Current liabilities			
Interest-bearing debt	212.2	337.1	174.2
Other liabilities	1,388.5	1,027.2	1,154.3
	1,600.8	1,364.3	1,328.5
Total liabilities	1,953.8	1,749.9	1,705.7
Shareholders' equity and liabilities	3,129.5	2,761.1	2,868.6

CONDENSED CASH FLOW STATEMENT

MEUR	1-6/2006	1-6/2005	2005
Cash flow operating activities:			
Profit before taxes	244.1	92.5	212.4
Depreciation and impairment	35.5	35.2	71.6
Financial income and expenses	0.9	9.4	23.4
Selling profit and loss of fixed assets and other adjustments	-126.2	-4.9	-13.3
Share of profit from associates	-15.0	-7.1	-10.9
Changes in working capital	-41.2	-165.7	-119.8
Cash flow from operating activities before financial items and taxes	98.1	-40.6	163.3
Net financial items and income taxes	-49.4	-51.4	-87.3
Cash flow from operating activities	48.6	-92.1	76.0
Cash flow from investing activities:			
Investments in shares and aquisitions	-71.9	-142.0	-152.2
Net investments in tangible and intangible assets	-31.4	-24.3	-27.8
Proceeds from sale of shares	148.5	1.1	0.7
Cash flow from other investing activities	9.5	-0.4	0.9
Cash flow from investing activities	54.6	-165.6	-178.3
Cash flow from financing activities:			
Issuance of share capital	6.7		22.1
New long-term loans	1.7	20.6	53.2
Amortization of long-term loans	-12.6	-20.9	-83.0
Dividends paid	-141.5	-84,1	-83.9
Changes in short term loans and other financing activities	64.0	288.3	139.1
Cash flow from financing activities	-81.7	203.9	47.6
Change in liquid funds, increase (+)/decrease (-)	21.6	-53.7	-54.7
Cash and cash equivalents at beginning of period	119.6	169.6	169.6
Exchange rate changes	-4.0	3.8	4.8
Cash and cash equivalents at end of period	137.2	119.6	119.6

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

MEUR	To equity holders of the parents company:					Minority interest	Total
	Share capital	Share-premium	Translation-differences	Fair value reserves	Retained earnings		
Shareholders' equity on Dec. 31, 2004	323.9	27.3	-1.0		542.5	7.8	900.5
IAS 39 applied on 1 January 2005				184.2			184.2
Translation differences			8.0			1.2	9.2
Other changes					-0.3		-0.3
Available-for-sale investments gain/loss from fair valuation,							
net of taxes				15.7			15.7
transferred to income statement, net of taxes				-0.1			-0.1
Cash flow hedges after tax				-52.8			-52.8
Net income recognized directly in equity			8.0	146.9	-0.3	1.2	155.8
Profit for the financial period					167.0	1.4	168.4
Total recognized income and expense for the period			8.0	146.9	166.7	2.6	324.2
Options exercised	5.4	16.7					22.1
Dividends paid					-83.3	-0.6	-83.9
Shareholders' equity on Dec. 31, 2005	329.4	44.0	7.0	146.9	625.8	9.8	1,163.0
Translation differences			-1.4			-0.8	-2.1
Other changes						0.7	0.7
Available-for-sale investments gain/loss from fair valuation,							
net of taxes				-0.9			-0.9
transferred to income statement, net of taxes				-80.6			-80.6
Cash flow hedges after taxes				27.6			27.6
Net income recognized directly in equity			-1.4	-53.9		-0.1	-55.4
Profit for the financial period					202.6	0.4	202.9
Total recognized income and expense for the period			-1.4	-53.9	202.6	0.3	147.5
Options exercised	1.7	5.0					6.7
Dividends paid					-141.2	-0.3	-141.5
Shareholders' equity on June 30, 2006	331.1	49.0	5.6	93.0	687.2	9.8	1,175.7

BUSINESS SEGMENTS

INCOME STATEMENT 1-6/2006 MEUR	Power Businesses	Imatra Steel	Invest-ments	Non-allocated	Group
Net sales	1,436.9				1,436.9
Operating result	106.1				106.1
Financial income and expenses, dividends			7.9	-8.8	-0.9
Net income from assets available for sale			123.9		123.9
Share of profit from Associates	0.2		14.8		15.0
Profit before taxes					244.1
Assets	2,770.0		251.7	107.8	3,129.5
Liabilities	1,840.2			113.5	1,953.8
Investments	115.7				115.7
Depriciations and impairment	-35.5				-35.5

INCOME STATEMENT 1-6/2005 MEUR	Power Businesses	Imatra Steel	Invest-ments	Non-allocated	Group
Net sales	1,139.0	119.0		-0.5	1,257.5
Operating result	72.9	21.9			94.8
Financial income and expenses, dividends			5.3	-14.7	-9.4
Net income from assets available for sales					
Share of profit of associates			6.7	0.5	7.1
Profit before taxes					92.5
Assets	2,332.1		331,2	97.8	2,761.1
Liabilities	**1,650.8**			**99.2**	**1,749.9**
Investments	**171.7**	**3.3**			**175.0**
Depreciations and impairment	-30.8	-4.4			-35.2

Geographical segments	Europe	Asia	Americas	Others	Group
Net sales 1-6/2006	538.8	488.1	310.5	99.5	1,436.9
Net sales 1-6/2005	540.7	432.3	179.0	105.4	1,257.5[1]

[1]Includes Imatra Steel net sales 1-4/2005

GROSS CAPITAL EXPENDITURE

MEUR	1-6/2006	1-6/2005	2005
Investments in securities and acquisitions			
Power Businesses	71.9	142.0	152.2
Other investments			
Power Businesses	43.8	29.7	75.6
Imatra Steel		3.3	3.4
	43.8	33.0	79.0
Group	115.7	175.0	231.1

IMPACT OF ACQUISITIONS ON THE CONSOLIDATED BALANCE SHEET:

During the reporting period Wärtsilä has acquired Wärtsilä Automation Norway A/S in Norway, DTS-Zwolle B.V. in the Netherlands and Total Automation Group in Singapore.

MEUR	
Acquisition costs	83.9
Acquired assets	-33.9
Goodwill	50.0
Specification of acquired assets:	
Tangible and intangible assets	24.7
Inventories	13.1
Receivables	25.1
Cash and cash equivalents	13.0
Minority interest	-0.7
Non-current liabilities	-5.2
Current liabilities	-36.2
Total	33.9

INTEREST-BEARING LOAN CAPITAL

MEUR	30 June 2006	30 June 2005	31 December 2005
Long-term liabilities	222.4	244.3	229.4
Current liabilities	212.2	337.1	174.2
Loan receivables	-4.1	-29.4	-28.1
Cash and bank balances	-137.2	-119.6	-119.6
Net	293.4	432.4	255.9

FINANCIAL RATIOS	1-6/2006	1-6/2005	2005
Earnings per share, EUR	2.15	0.73	1.80
Diluted earnings per share, EUR	2.13	0.72	1.78
Shareholders equity/share, EUR	12.33	10.78	12.25
Solvency ratio, %	44.0	39.7	46.6
Gearing	0.25	0.46	0.24

PERSONNEL

On average	1-6/2006	1-6/2005	2005
Power Businesses	12 650	11 253	11 625
Imatra Steel		847	424
Group	12 650	12 100	12 049
Personnel, at the end of period	12 918	11 378	12 008

CONTINGENT LIABILITIES

MEUR	30 June 2006	30 June 2005	31 December 2005
Mortgages	15.4	43.6	15.0
Chattel mortgages	21.1	29.5	23.1
Total	36.5	73.1	38.1
Guarantees and contingent liabilities			
on behalf of Group companies	303.9	236.9	290.0
on behalf of associated companies	1.4	0.7	
Nominal amounts of rents according to leasing contracts	39.3	37.7	37.4
Total	344.6	275.3	327.4

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

MEUR	Total amount	of which closed contracts
Interest rate swaps	140.0	
Currency forward contracts	1,164.0	133.5
Currency options, purchased	80.4	80.4
Currency options, written	80.4	80.4

Income statement, quarterly

MEUR	4-6/06	1-3/06	10-12/05	7-9/05	4-6/05	1-3/05
Net sales	845.0	591.9	773.5	607.8	686.8	570.7
Power Businesses	845.0	591.9	773.5	607.8	655.2	483.8
Imatra Steel					31.7	87.3
Operating result	70.2	35.9	86.1	43.5	48.4	46.4
Power Businesses	70.2	35.9	86.1	43.5	43.6	29.3
Imatra Steel					4.8	17.1
Financial income and expenses	1.7	-2.6	-4.0	-9.9	-5.0	-4.5
Net income from assets available for sales	123.9			0.5		
Share of profit from associates	8.3	6.7	0.9	2.9	6.8	0.4
Profit before taxes	204.1	40.0	83.0	36.9	50.2	42.2
Power Businesses and Holdings	204.1	40.0	83.0	36.9	45.3	25.7
Imatra Steel					5.0	16.5
Earnings per share, EUR	1.60	0.55	0.75	0.32	0.40	0.33

3 August 2006

Wärtsilä Corporation
Board of Directors

Wärtsilä enhances the business of its customers by providing them with complete lifecycle power solutions. When creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products and solutions as well as services. Through innovative products and services, Wärtsilä sets out to be the most valued business partner of all its customers. This is achieved by the dedication of more than 12,000 professionals manning 130 Wärtsilä offices in over 60 countries around the world.

The Interim Report January-September 2006 will be published on 31 October.

Financial Reports are published in English, Finnish and Swedish on Wärtsilä's internet site www.wartsila.com.

Mission

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

Vision

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

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