



WÄRTSILÄ



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

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## FIVE YEARS IN FIGURES

| Five Years in Figures                              |     | IFRS              |         | FAS     |         |         |         |
|--|-----|-------------------|---------|---------|---------|---------|---------|
| MEUR   |     | 2005              | 2004    | 2004    | 2003    | 2002    | 2001    |
| <b>Net sales</b>                                   |     | 2,638.8           | 2,478.2 | 2,478.2 | 2,357.5 | 2,519.0 | 2,358.7 |
| of which outside Finland                           | %   | 97.7              | 96.2    | 96.2    | 97.1    | 96.6    | 96.5    |
| Exports from Finland                               |     | 1,404.7           | 1,292.0 | 1,292.0 | 1,240.6 | 1,363.7 | 1,153.7 |
| Personnel on average                               |     | 12,049            | 12,361  | 12,361  | 12,293  | 12,417  | 10,846  |
| of which in Finland                                |     | 2,572             | 3,246   | 3,246   | 3,463   | 3,510   | 3,511   |
| Order book. Power Businesses                       |     | 2,905.7           | 1,855.3 | 1,855.3 | 1,245.0 | 1,206.6 | 1,516.5 |
| <b>From the income statement</b>                   |     |                   |         |         |         |         |         |
| Depreciation and write-downs                       |     | 71.6              | 63.0    | 85.5    | 156.0   | 105.4   | 126.0   |
| Operating result                                   |     | 224.3             | 112.0   | 239.8   | -18.4   | 188.9   | 523.9   |
| as a percentage of net sales                       | %   | 8.5               | 4.5     | 9.7     | -0.8    | 7.5     | 22.2    |
| Net financial items                                |     | -23.4             | -3.7    | -3.3    | -15.9   | -18.5   | -15.2   |
| as a percentage of net sales                       | %   | -0.9              | -0.2    | -0.1    | -0.7    | -0.7    | -0.6    |
| Net income from investments available for sale     |     | 0.5               | 107.7   |         |         |         |         |
| Share of profits/losses in associated companies    |     | 10.9              | 1.4     | 1.4     | 0.0     | 0.4     | 0.1     |
| Profit before extraordinary items                  |     | 212.4             | 217.3   | 236.5   | -34.4   | 170.4   | 508.7   |
| as a percentage of net sales                       | %   | 8.0               | 8.8     | 9.5     | -1.5    | 6.8     | 21.6    |
| Profit before taxes                                |     | 212.4             | 217.3   | 236.5   | -34.4   | 170.4   | 502.7   |
| as a percentage of net sales                       | %   | 8.0               | 8.8     | 9.5     | -1.5    | 6.8     | 21.3    |
| Profit for the financial year                      |     | 167.0             | 130.0   | 160.3   | -39.3   | 121.9   | 305.7   |
| as a percentage of net sales                       | %   | 6.3               | 5.2     | 6.5     | -1.7    | 4.8     | 13.0    |
| <b>From the balance sheet</b>                      |     |                   |         |         |         |         |         |
| Non-current assets                                 |     | 1,315.8           | 964.0   | 878.3   | 961.9   | 1,085.4 | 799.3   |
| Current assets                                     |     | 1,552.8           | 1,433.3 | 1,448.4 | 1,421.0 | 1,599.6 | 1,605.6 |
| Shareholders' equity                               |     | 1,153.1           | 892.7   | 853.0   | 804.6   | 953.0   | 1,071.6 |
| Minority interests                                 |     | 9.8               | 7.8     | 7.8     | 6.1     | 6.5     | 6.4     |
| Interest-bearing liabilities                       |     | 403.6             | 320.0   | 319.5   | 496.8   | 624.3   | 168.3   |
| Non-interest-bearing liabilities                   |     | 1,302.0           | 1,176.8 | 1,146.4 | 1,075.4 | 1,101.2 | 1,158.7 |
| Balance sheet total                                |     | 2,868.6           | 2,397.3 | 2,326.7 | 2,382.9 | 2,685.0 | 2,405.0 |
| Gross capital expenditure                          |     | 231.1             | 69.2    | 64.8    | 65.4    | 423.3   | 97.1    |
| as a percentage of net sales                       | %   | 8.8               | 2.8     | 2.6     | 2.8     | 16.8    | 4.1     |
| Research and development expenses <sup>3</sup>     |     | 70.1              | 73.4    | 59.4    | 70.2    | 87.6    | 81.4    |
| as a percentage of net sales                       | %   | 2.7               | 3.0     | 2.4     | 3.0     | 3.5     | 3.5     |
| Dividends paid for the financial year <sup>1</sup> |     | 84.7              | 41.6    | 41.6    | 44.7    | 14.9    | 29.7    |
| Supplementary dividend                             |     | 56.5              | 41.6    | 41.6    | 61.7    | 89.2    | 208.1   |
| Dividends total                                    |     | 141.2             | 83.3    | 83.3    | 106.4   | 104.1   | 237.8   |
| <b>Financial ratios</b>                            |     |                   |         |         |         |         |         |
| Earnings per share (EPS)                           | EUR | 1.80              | 1.42    | 1.75    | -0.44   | 1.37    | 3.69    |
| Diluted EPS  | EUR | 1.78              |         |         |         |         |         |
| Dividend per share                                 | EUR | 1.50 <sup>1</sup> | 0.90    | 0.90    | 1.17    | 1.17    | 2.67    |
| Payout ratio                                       | %   | 83.3 <sup>1</sup> | 64.1    | 51.4    | n/a     | 85.4    | 72.3    |
| Interest coverage <sup>2</sup>                     |     | 8.3               | 17.2    | 20.1    | 4.4     | 7.8     | 12.6    |
| Return on investment (ROI)                         | %   | 18.0              | 18.0    | 20.4    | 0.1     | 14.9    | 43.0    |
| Return on equity (ROE)                             | %   | 16.3              | 15.0    | 19.7    | -4.5    | 12.4    | 33.7    |
| Solvency ratio 1 <sup>2</sup>                      | %   | 46.6              | 40.8    | 40.3    | 35.0    | 36.9    | 47.3    |
| Solvency ratio 2                                   | %   | 46.6              | 40.8    | 40.3    | 36.2    | 38.0    | 48.6    |
| Gearing 1 <sup>2</sup>                             |     | 0.24              | 0.17    | 0.18    | 0.48    | 0.50    | 0.01    |
| Gearing 2  |     | 0.24              | 0.17    | 0.18    | 0.43    | 0.46    | -0.02   |
| Equity per share                                   | EUR | 12.25             | 9.65    | 9.22    | 8.69    | 10.37   | 11.70   |

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

<sup>2</sup>Please refer to the Calculation of Financial Ratios on page 4.

<sup>3</sup>Accounting principles for R&D expenses changed in 2004.

## CALCULATION OF FINANCIAL RATIOS

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### Return on investment (ROI)

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

### Return on equity (ROE)

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

### Interest coverage

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

### Solvency ratio

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

### Gearing

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

### Earnings per share (EPS)

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

### Equity per share

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

### Dividend per share

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

### Payout ratio

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

### Effective dividend yield

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

### Price/earnings (P/E)

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

### Price/book value per share (P/BV)

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

**Highlights of 2005**

Strong growth in the world economy is being reflected in an increasing need for commercial seaborne transport in Wärtsilä's core markets. This factor explains the lively demand for new marine vessels in recent years and the high order books reported by shipyards. Strong growth is also boosting the need for electricity, especially in developing countries. Oil price rises favour high-efficiency products in particular and Wärtsilä has benefited from the buoyant business conditions through its competitive product portfolio, which is also evidenced by growth in its market shares. In 2005 Wärtsilä received a record number of new orders and its year-end order book reached a record high as well.

The Group's operating income rose to EUR 224.3 million (112.0). The Power Businesses reported the best result so far in their history, EUR 202.5 million (87.7), and profitability at 8.0% met the targets.

The company continued to pursue its strategy of Ship Power and Service development through acquisitions and by strengthening its position in Asia. In its Power Plants business Wärtsilä's strategy to concentrate on solutions for the decentralized power generation market has yielded results and success was especially pronounced in the gas power plant sector.

**Adoption of International Financial Reporting Standards (IFRS)**

Wärtsilä adopted IFRS reporting standards on 1 January 2005. The comparison figures for 2004 have been adjusted accordingly. The figures for the years 2001–2003 in the Five Years in Figures table on page 3 are calculated according to Finnish accounting standards (FAS). The impacts of IFRS on the balance sheet and income statement are described in Wärtsilä's stock exchange release dated 18 March 2005, which is available on the company's website, www.wartsila.com and in the notes of the Financial Statements no 33. IAS 39 (Financial Instruments) has been applied since 1 January 2005. Its impact at 1 January 2005 on shareholders' equity was EUR +42.7 million from derivative financial instruments and EUR +141.5 million from assets available for sale. The impact at 31 December 2005 was EUR -10.1 million from derivative financial instruments and EUR +157.1 million from assets available for sale.

**Group structure**

The process of developing Wärtsilä from a group with diversified industrial interests into a unified corporation supplying power solutions was concluded in spring 2005. At the beginning of May the Group's steel business, Imatra Steel, became part of a new steel company called Oy Ovako Ab. Hence Wärtsilä

Group today comprises its three Power Businesses: Ship Power, Service and Power Plants. Ovako, in which Wärtsilä's holding is 26.5%, is consolidated as an associated company from 1 May 2005. Imatra Steel is consolidated as a subsidiary in Wärtsilä's financial statements for the first four months of the year.

**Strategy – actions to support growth targets**

Wärtsilä provides lifecycle power solutions to enhance the business of its customers, whilst creating better technologies that benefit both the customer and the environment. Wärtsilä's vision is to be the most valued business partner of all its customers.

Wärtsilä wants to maintain its leading position in the ship power business and to grow further by providing its customers with the best lifetime economic performance and reliability in the market through an integrated offering that meets their business needs throughout the world.

The company will also grow by adding new products and services to its offering, especially in the fields of automation, electronics and ship design. The aim is to grow both organically and through partnerships and acquisitions.

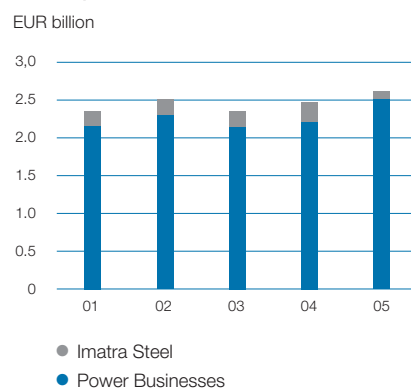
In the service market Wärtsilä also provides service for other makes of equipment on board vessels as well as comprehensive ship service in key ports.

**Net sales**

| MEUR                                   | 2005               | 2004    | Change % |
|--|--------------------|---------|----------|
| Ship Power                             | 710.3              | 631.2   | 12.5     |
| Power Plants                           | 710.3              | 651.9   | 9.0      |
| Service                                | 1,093.1            | 936.8   | 16.7     |
| Imatra Steel                           | 119.0 <sup>1</sup> | 254.4   | -53.2    |
| Other operations and intra-group sales | 6.2                | 3.9     | 56.6     |
| Group                                  | 2,638.8            | 2,478.2 | 6.5      |

<sup>1</sup> Four months.

**Development of net sales**



In the growing Asian shipbuilding market Wärtsilä has strengthened its presence in sourcing, manufacturing and lifetime customer support, and this work will continue. Wärtsilä is forging partnerships in both its existing businesses and in new growth areas.

In Power Plants, Wärtsilä's strategic goal is to further strengthen its global position in the decentralized energy market. Wärtsilä offers power generation solutions based on oil, gas and dual-fuel reciprocating engines, and on biomass-fuelled plants. The company's competitive advantage is the high efficiency of its power plants coupled with operational flexibility, which gives customers a better return on their investment also in times of increasing or volatile fuel prices.

The expected growth in gas power plants has started in the industrial countries. Wärtsilä gas and dual-fuel power plants have proven competitive and for this reason the subject of increasing interest. In heavy fuel oil plants, Wärtsilä is focusing on clearly defined segments that offer the greatest market potential.

#### Strategic measures in 2005

Wärtsilä took several steps during 2005 to strengthen the leading positions of its Ship Power and Service businesses globally:

- Production of thrusters in China began in June; the first deliveries were made in September.
- The project to manufacture marine reduction gears in India made planned progress.
- Construction work started on the new factory for the 50/50-owned joint venture set up with China Shipbuilding Industry Corporation

(CSIC). The company will start production of Wärtsilä diesel generating sets, used as auxiliary engines in marine vessels. Production is expected to begin in early summer 2006.

- A strategic alliance was made with Mitsubishi Heavy Industries Ltd (MHI) in the field of 2-stroke diesel engines.
- Design work started on two new Wärtsilä RT-flex engines in co-operation with Hyundai Heavy Industries Co. Ltd. (HHI) and these engines will be tested in HHI's production facilities.
- Wärtsilä took a 12.5% stake in Aker Arctic Technology Inc., which offers ship designs for shipyards, shipowners and offshore operators interested in operations in ice-infested cold waters.
- Wärtsilä took over the DEUTZ marine engine service business from the German company DEUTZ AG. Wärtsilä began to provide service and OEM parts for these engines globally from 1 April 2005.
- To expand its Service business Wärtsilä set up a marine service company in Estonia with the Estonian BLRT Grupp to serve the Baltic market. A service company was also established in Hong Kong. In the USA, Wärtsilä acquired in November a company specialized in the service of automation and control systems for diesel and gas engines.

#### Financial targets

The Group's average annual growth target for net sales is 6–7%. The annual growth target for the Ship Power and Power Plants businesses is 4% and for the Service business 10–15%. Wärtsilä's operating income (EBITA) target is 8%

of net sales, taking into account business cycle fluctuations.

#### Order book historical high

A record number of new orders were received during the year. The order intake totalled EUR 3,491.1 million (2,791.4), representing growth of 25.1%. Most new orders were registered in the Ship Power business, where the order intake was 84.7% higher than one year earlier. The full-year order intake for the Power Plants business decreased by 15.1% but began to rise clearly during the second half of the year. The order intake level for Power Plants in the previous year can be considered exceptionally high owing to a large one-off order.

Wärtsilä's total order book at the end of 2005 reached an all-time high, EUR 2,905.7 million (1,855.3), up 56.6% on the previous year.

#### Net sales increased

Wärtsilä's consolidated net sales increased to EUR 2,638.8 million (2,478.2). Net sales of the Power Businesses rose to EUR 2,520.3 million (2,224.7), an increase of 13.3% on the year before. This increase was due in particular to the large number of orders for marine engines and propulsion systems at the year end and to strong growth in the Service business.

Imatra Steel's net sales of EUR 119.0 million was consolidated for the first four months of the year (254.4).

#### Result improved, profitability target achieved

The Group's operating income improved to EUR 224.3 million (112.0). Operating income in the previous year was depressed by a EUR 66.0 million re-

#### Operating income MEUR

|                  | 2005              | 2004  | 2005 | EBIT%<br>2004 | 2005 | ROI%<br>2004 |
|------------------|-------------------|-------|------|---------------|------|--------------|
| Power Businesses | 202.5             | 87.7  | 8.0  | 3.9           | 18.9 | 7.5          |
| Imatra Steel     | 21.8 <sup>1</sup> | 24.3  | 18.3 | 9.5           | 46.0 | 7.7          |
| Group            | 224.3             | 112.0 | 8.5  | 4.5           | 18.0 | 18.0         |

<sup>1</sup> Four months.

structuring provision which, in compliance with IFRS, was entered in the first quarter of 2004 rather than in 2003. The Group's profitability (EBITA) was 8.5% (4.5).

The Power Businesses contributed EUR 202.5 million (87.7) to consolidated operating income. The profitability (EBITA) of the Power Businesses rose, as targeted, to 8.0% (3.9).

Consolidated operating income includes Imatra Steel's operating income for the first four months of the year, EUR 21.8 million. Wärtsilä's share of the associated company Oy Ovako Ab's result for the months May to December (EUR 10.4 million) is shown below operating income and under 'Share of associated companies' results'. Oy Ovako Ab's result was burdened by a EUR 25 million restructuring provision.

Financial items amounted to EUR -23.4 million (-3.7). Net interest totalled EUR -11.9 million (-9.5), the higher figure being attributable to a slight increase in loan capital and interest rates. Other financial expenses increased because of interest rate differences on derivatives, EUR -9.4 million (0.5), most of which related to the interest rate difference on foreign exchange forward contracts denominated in US dollars, which rose during the year. Moreover, the change in market value of foreign currency options and

interest rate derivatives, EUR -3.8 million (0) was entered in the income statement because the hedge is not effective according to IAS 39. Financial items include dividends totalling EUR 7.2 million (8.8), the largest of which were dividends paid by Sampo Oyj and Assa Abloy AB (publ).

Income before taxes was EUR 212.4 million (217.3). Pretax income in the comparison year included a EUR 107.7 million capital gain on the disposal of Assa Abloy shares.

Taxes amounted to EUR 44.0 million (86.1), and EUR 42.4 million (63.1) of this amount fell due during the reporting period.

Net income was EUR 168.4 million (131.3).

Earnings per share improved to EUR 1.80 (1.42). Return on investment (ROI) was 18.0% (18.0) and return on shareholders' equity (ROE) was 16.3% (15.0).

**Financial position good**

Wärtsilä's cash flow from operating activities was EUR 76.0 million (220.1). The financial position was good.

Working capital was tied up in deliveries in progress during the first half of the year due to an increase in business volumes and also to the growing DEUTZ business. Furthermore cash payments were made during the period against the restructuring provisions.

Cash and cash equivalents at the end of the year amounted to EUR 119.6 million (169.6). Net interest-bearing loan capital was EUR 255.9 million (141.6). The solvency ratio was 46.6% (40.8) and gearing was 0.24 (0.17).

**Capital expenditure**

Gross capital expenditure for the reporting period totalled EUR 231.1 million (69.2), which comprised EUR 152.2 million (7.9) spent on acquisitions and EUR 79.0 million (61.3) in production and information technology investments. EUR 23.2 million was related to the Ovako transaction. Depreciation amounted to EUR -71.6 million (-63.0).

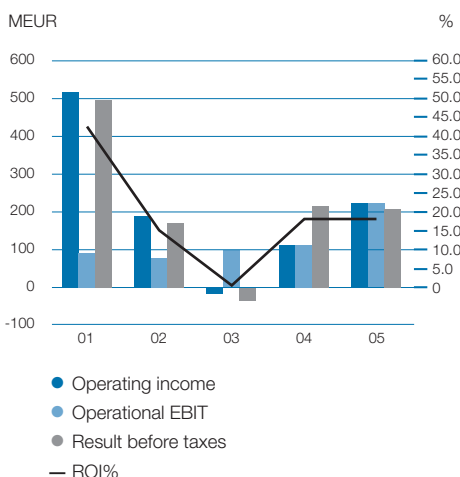
The largest single investment was the acquisition on 31 March 2005 of the marine engine service business from DEUTZ AG. The investment value of this acquisition, including costs, was EUR 115.6 million which included inventories amounting to EUR 8 million. The remainder was allocated to intangible assets. The business was consolidated in the balance sheet on 31 March 2005.

Research and development costs totalled EUR 70.0 million (73.4), or 2.7% (3.0) of net sales.

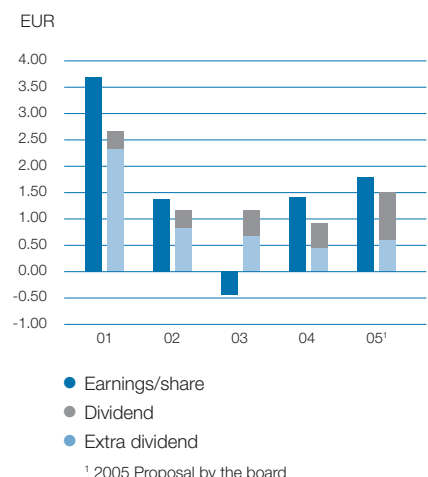
**Holdings**

Wärtsilä owns 17,270,350 B shares in Assa Abloy AB (publ), or 4.7% of the

**Result**



**Earnings/share, dividend/share**





total. The market value of the Assa Abloy B share on 31 December 2005 was 125 Swedish krona. This holding has been booked in the balance sheet at its market value at the end of the reporting period, EUR 229.9 million.

The new steel company Oy Ovako Ab was formed on 1 May 2005 and Wärtsilä's holding is 26.5%. The balance sheet value of this holding at the close of the period was EUR 106.1 million. Furthermore Wärtsilä has granted a shareholder's loan of EUR 21.2 million to Ovako. Wärtsilä has recorded EUR 10.4 million as its share of this associated company's result for the period 5–12/2005. Ovako's result was burdened by a EUR 25 million restructuring provision.

Wärtsilä sold investment properties and shares in property companies totaling EUR 19.3 million (14.7) during 2005, generating a profit of EUR 8.7 million (9.8). At the end of the year the investment properties had a total book value of EUR 17.2 million (14.2).

#### Personnel

Wärtsilä Group had 12,049 (12,361) employees on average during the year and 12,008 (12,475) at the year end. The largest personnel increases took place in the Service business. The DEUTZ agreement added 170 service employees. Due to the termination of production, the number of employees in Turku, Finland, decreased by 359 during the first quarter. The number of

employees in Vaasa, Finland, increased by 198 persons during the year. Imatra Steel's transfer to Ovako reduced the number of employees in the Group by 1,279 persons.

#### Sustainable development

Wärtsilä will publish its Sustainability Report as part of its Annual Report. The Sustainability Report describes the work done by the company to improve the environmental performance of its products and reduce the environmental impacts of its production operations.

#### Option schemes

Wärtsilä's option schemes covering key employees of the Group were launched in 2001 and 2002. On 3 February 2005 Wärtsilä's Board of Directors decided to include the 2001 options in the book-entry securities system. These options were admitted for trading on the Main List of the Helsinki Exchanges on 7 March 2005. The 2002 options have been listed on the Helsinki Exchanges since 2004.

The decision of the Annual General Meeting to pay an extra dividend of 0.45 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 16.70 euros per share and based on the 2002 options 9.50 euros per share.

#### Changes in ownership structure

On 14 June 2005 Fiskars Corporation announced that it had sold four million Wärtsilä B shares. Before this sale, Fiskars held 7,482,300 Wärtsilä A shares and 11,165,800 Wärtsilä B shares, which represented 28.2% of the voting power in Wärtsilä and 20.1% of the total number of shares. After the sale, Fiskars' holding decreased to 26.9% of the votes and 15.8% of the shares. In December Fiskars increased its holding of Wärtsilä A shares so that at the end of the year Fiskars held 8,561,676 Wärtsilä A shares and 7,165,800 B shares, representing 30.6% of the votes and 16.8% of the shares.

#### Annual General Meeting

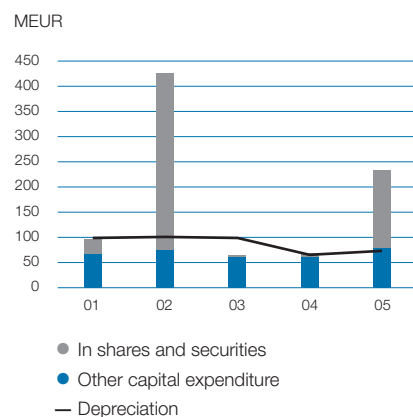
The Annual General Meeting on 21 March 2005 approved the Board of Directors' proposal to distribute a dividend of EUR 0.45 per share and an extra dividend of EUR 0.45 per share, making a total dividend of EUR 0.90 per share.

The AGM confirmed the number of Board members to be seven and elected the following 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.

#### Gross capital expenditure

| MEUR                             | 2005  | 2004 |
|----------------------------------|-------|------|
| <b>Investments in securities</b> |       |      |
| Power Businesses                 | 152.2 | 7.9  |
| <b>Other investments</b>         |       |      |
| Power Businesses                 | 75.6  | 55.5 |
| Imatra Steel                     | 3.4   | 5.8  |
| Total                            | 79.0  | 61.3 |
| Group                            | 231.1 | 69.2 |

#### Gross capital expenditure



### Board of Directors

The Board elected Antti Lagerroos as its chairman and Göran J. Ehrnrooth as the deputy chairman. The Board has an Audit Committee and a Nomination and Compensation Committee. The chairman of the Audit Committee is Antti Lagerroos and its other members are Heikki Allonen, Risto Hautamäki and Matti Vuoria. The chairman of the Nomination and Compensation Committee is Antti Lagerroos and its other members are Göran J. Ehrnrooth and Jaakko Iloniemi.

### Share capital and shares

A total of 1,556,499 Wärtsilä B shares were subscribed during the period un-

der the 2001 and 2002 option schemes. This increased the share capital by EUR 5,447,746.50 following which the share capital amounts to EUR 329,374,906.00.

The AGM on 21 March 2005 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 five per cent (5%) of the company's total share capital and voting rights. This authorization was not exercised during the reporting period.

## BUSINESS REVIEW

### Power Businesses

#### SHIP POWER

##### High level of demand

The boom in the shipbuilding industry continued during 2005. Even more orders for new-buildings were placed during the first half of the year than in the same period in the two previous years. Although the volume of orders for new tonnage declined towards the end of the year, the number of orders for the full year was still at a good level; altogether 1,850 (2,012) new vessels were ordered during the year. The market trend towards smaller vessels favours Wärtsilä.

### Trading on the Helsinki Stock Exchanges

|                               | 1-12/2005 | 2004  |
|-------------------------------|-----------|-------|
| Trading in Helsinki, shares   | 88.0%     | 51.5% |
| Trading in Helsinki, votes    | 36.3%     | 21.9% |
| Trading on the SEAQ, votes    | 12.0%     | 7.9%  |
| Foreign ownership at year end | 24.1%     | 15.7% |

### Shares at 31 December 2005

|                  | A share     | B share    | Total       |
|------------------|-------------|------------|-------------|
| Number of shares | 23,579,587  | 70,527,529 | 94,107,116  |
| Number of votes  | 235,795,870 | 70,527,529 | 306,323,399 |

### Wärtsilä share on the Helsinki Stock Exchanges

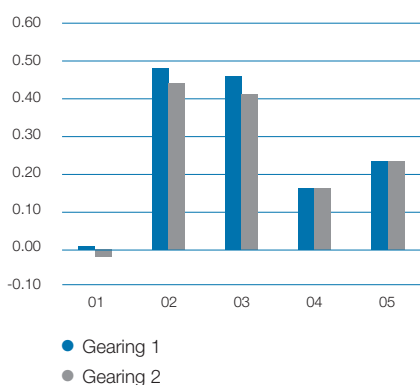
|                              | Highest EUR | Lowest EUR | Average <sup>1</sup> EUR | Total traded |
|------------------------------|-------------|------------|--------------------------|--------------|
| 1 January – 31 December 2005 |             |            |                          |              |
| A share                      | 26.70       | 15.31      | 22.73                    | 3,160,625    |
| B share                      | 27.09       | 15.68      | 22.46                    | 79,635,755   |

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

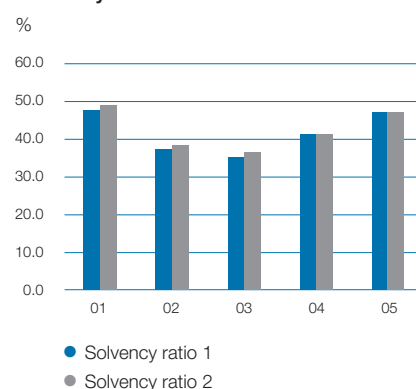
### Market capitalization

|      | 31 Dec. 2005 | 31 Dec. 2004 |
|------|--------------|--------------|
| MEUR | 2,348.9      | 1,440.8      |

### Gearing



### Solvency ratio



The decrease in order volume applied mainly to tankers and bulk carriers. In orders for containerships the trend was from large to smaller vessels. The offshore sector gained considerably more orders than one year earlier. The passenger and RoPax sectors enjoyed an active season. A total of 11 new cruise ships were ordered in 2005 maintaining a good level of orders.

Asia has for several years been the hub of the world's shipbuilding industry. In 2005 China overtook Japan in vessel order contracting. In terms of the number of orders, China is very close to Korea, which is still clearly the world's leading shipbuilding country for large vessels and the largest in terms of dead weight tons.

The manufacturing operations started by Wärtsilä in China are aimed at raising business volumes in Asia and especially in the growing shipbuilding market in China.

#### Outstanding year for Ship Power

Wärtsilä received a record number of orders for ship power systems and engines during the year. Orders were registered steadily throughout the year and the final order intake was EUR 1,545.3 million (836.7), or 84.7% higher than one year earlier. For the same reason a new record was recorded for the year-end order book, EUR 1,658.5 million (812.7).

Net sales rose to EUR 710.3 million (631.2), an increase of 12.5%. The high

order intake of the past 18 months was not yet reflected in net sales for 2005 but it will have an impact in the following three years. Net sales grew strongly in the fourth quarter, 31.4%, due to the timing of large deliveries at the end of the year. In output terms, Wärtsilä delivered medium-speed engines totalling 1,760 MW (1,474). The licensees delivered another 3,577 MW (3,053) in low-speed engines.

Wärtsilä was successful in a number of sectors during 2005. Growth continued in LNG carriers and Wärtsilä's dual-fuel engines became established as a noteworthy alternative in this field. The most significant orders of the year included the order for 24 Wärtsilä 50DF engines placed by AP Möller and Kawasaki Kisen Kaisha at the end of March.

The offshore sector was active throughout the year and Wärtsilä gained several significant orders for both drilling platforms and support vessels. In many offshore projects, as in other segments as well, Wärtsilä also supplies the entire propulsion system in addition to the main engines. Sales of total ship power systems grew strongly in 2005 and more than half of all projects sold included several components from Wärtsilä's product portfolio. A good example is the order for 32 engines and 16 thrusters for oil drilling platforms being built by Singaporean Keppel FELS Ltd for the Danish company AP Möller-Maersk A/S.

The RT-flex 50 engine, jointly developed by Wärtsilä and Mitsubishi,

continued its breakthrough as a main engine for bulk carriers and tankers as new orders were received and also the first deliveries made. The two parties are continuing this fruitful collaboration in a strategic alliance.

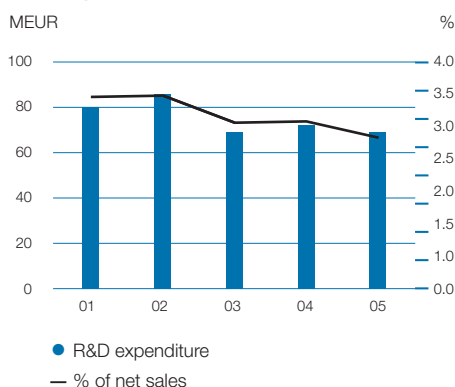
Annual capacity was doubled in the joint venture propeller factory in China from 1,000 tonnes to 2,000 tonnes and the maximum size of the propellers manufactured was increased at the same time.

Construction of the new thruster factory in Wuxi, China, was completed, and production got under way. The machinery and equipment of the thruster factory in Heerlen, the Netherlands, was sold and its employees moved to a new company in December. A new production unit for mid-sized reduction gears was established at Wärtsilä's Khopoli factory in India.

The propulsion business showed further strong development. Wärtsilä has traditionally held a strong position in controllable pitch propellers. In 2005 demand shifted to smaller propellers and for this reason Wärtsilä's market share declined to 40% (50). In fixed pitch propellers, Wärtsilä consolidated its position thanks to the start-up of production in China, despite a marginal decrease in market share from 9% to 6%.

2005 was also a successful year for Wärtsilä's seals business. The company brought several new products to market and succeeded in raising its market share especially in face seals systems.

#### R&D expenditure



#### Interest-bearing loan capital

| MEUR                   | 2005   | 2004   |
|------------------------|--------|--------|
| Long-term liabilities  | 229.4  | 271.2  |
| Current liabilities    | 174.2  | 48.8   |
| Loan receivables       | -28.1  | -8.9   |
| Cash and bank balances | -119.6 | -169.6 |
| Net                    | 255.9  | 141.6  |

**Higher market share for engines**

Market trends in both low-speed and medium-speed engines favoured Wärtsilä during 2005. The company's product and solutions portfolio was well suited to demand and market shares increased.

According to Wärtsilä's statistics, the total market for low-speed engines amounted to 22,703 MW (24,863). In this sector Wärtsilä raised its market share to 24% (18). The shares of the other two suppliers in this segment were 73% and 3%.

The market for medium-speed engines totalled 6,676 MW (3,990). In this segment Wärtsilä is the market leader, its share rising to 45% (34). The largest competitor accounted for 24% of the market and the second largest for 18%. The total size of the market for medium-speed auxiliary engines grew to 5,220 MW (3,544) and Wärtsilä's share remained almost unchanged at 8% (9).

**SERVICE**

**Strong growth continued**

Net sales of the Service business rose to EUR 1,093.1 million (936.8), up 16.7% on the previous year. The pace of growth accelerated during the fourth quarter to 24.3% compared to the same period one year earlier due to sales of spare parts, 2-stroke engine service, gas conversion projects for many engines, and strong development in the Ciserv group.

Wärtsilä took over worldwide spare parts sales and service for DEUTZ medium-speed marine engines after acquiring the installed base of these engines (12,500 MW) from the German company DEUTZ AG. Following this deal Wärtsilä's base of installed engines totalled almost 150 GW.

Wärtsilä signed its first global operations & maintenance agreement in the maritime industry during the year. The customer was the German shipowner Reederei Blue Star GmbH. The agreement covers a substantial part of the maintenance and operational support needed for the company's ocean-going vessels.

Real-time remote monitoring and condition-based maintenance (CBM) is becoming a strategically important service tool for Wärtsilä. At present some 209 ship engine rooms and power plants are covered by CBM services.

The volume of online services more than tripled on the previous year.

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

Wärtsilä established several new service companies to increase its presence in the world's main shipping hubs.

**POWER PLANTS**

**Wärtsilä's competitiveness is based on high efficiency**

The increase in crude oil prices in 2005 raised the price of electricity generated using fuel oils and, after a certain delay, the price of electricity produced with natural gas. At the same time, though, this trend improved the competitiveness of heavy fuel oil and gas power plants compared to light fuel oil plants. Crude oil prices are expected to stay high.

Demand will remain steady in the heavy fuel oil market largely dominated by Wärtsilä – islands and remote areas mainly in the developing world. Electricity consumption growth rates are typically fairly high in these regions, and there is a continuous need for additional production capacity. The excellent efficiency of Wärtsilä's products gives the company a strengthening competitive edge while oil prices are high.

The oil and gas industry is investing increasingly in LNG vessels and terminals and in gas pipelines. Consequently, power plant demand also in developing countries is gradually, region by region, turning towards gas. This offers Wärtsilä the opportunity to increase its current business volume and market share in this traditional core market.

**Market size and market shares**

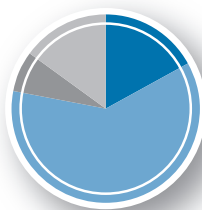
In 2005 the total global market for oil and gas power plants in Wärtsilä's power

Group net sales by business 2005



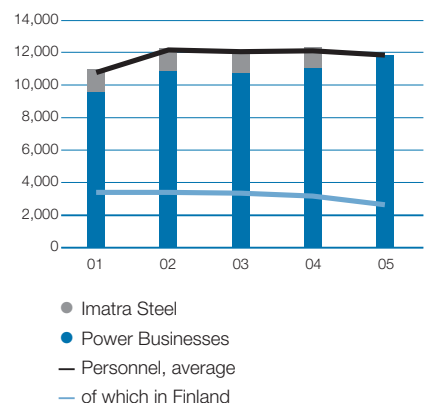
- Ship Power 27% (26)
- Service 42% (38)
- Power Plants 27% (26)
- Imatra Steel 5% (10)

Personnel by business 2005



- Ship Power 17% (16)
- Service 61% (58)
- Power Plants 7% (7)
- Engine Division 15% (19)

Personnel



range was in the order of 10,300 MW. In these markets Wärtsilä focuses on gas and heavy fuel oil power plants.

In 2005 the global gas power plant market grew by 13% to 7,600 MW. Orders for heavy fuel oil power plants returned to an average level of 1,921 MW after the record high year in 2004 (2,533 MW).

According to statistics compiled by Diesel and Gas Turbine magazine, Wärtsilä's market share of heavy fuel oil plants between June 2004 and May 2005 was 44% (71%). Wärtsilä's market share in the previous year was exceptionally large owing to orders placed in Iraq. The market for gas engine power plants increased from roughly 2,000 MW to 3,000 MW during the same period. Wärtsilä's share in this segment was 19.8% (19.3).

#### Strong penetration in gas power plant market

The order intake for power plants was high throughout 2005 and particularly good during the second half of the year. New orders totalled EUR 865.2 million (1,019.5). The lower figure compared to 2004 is attributable to two exceptionally large orders. During the fourth quarter the order intake rose to EUR 346.6 million (211.7), representing growth of 63.7% on the comparison period.

The year-end order book stood at EUR 943.9 million (752.4), an all-time high and 25.5% higher than at the end of 2004.

Net sales of the Power Plants business increased 9.0% to EUR 710.3 million (651.9). Net sales accrued during the year more evenly than at any time in the past. Fourth-quarter net sales amounted to EUR 193.7 million (283.0), which was 31.6% less than one year earlier, the difference being due to the timing of project deliveries.

In terms of power output, Wärtsilä supplied power plants totalling 1,607 MW (1,363) in 2005. This figure includes 973 MW of oil-fired power plants (1,005) and 634 MW (358) of gas power plants. Gas power plants accounted for 40% of the new power plant orders.

The largest orders for heavy fuel oil power plants were gained in Brazil, Saudi-Arabia and Senegal. A bio-oil power plant order was gained in Italy. The most significant gas power plant orders came from Azerbaijan, India and Pakistan, and the most important orders for biopower plants were placed in Sweden and Belgium.

The Azerbaijan order comprises five gas power plants. The first gas power plant with W50DF dual-fuel engines was delivered to Turkey with good results.

#### Engine manufacturing

The transfer of engine manufacturing from Turku to Trieste was completed in 2005. Manufacturing of 4-stroke engines is now concentrated in two fac-

ories: one in Vaasa, Finland, and the other in Trieste, Italy. This manufacturing concept gives Wärtsilä considerable flexibility and growth potential also in conditions of higher demand. The current order book will ensure that the factories operate at full capacity until the middle of 2007.

Development programmes carried out in 2005 were aimed at enhancing quality, delivery reliability and cost-competitiveness. A new assembly factory will be opened in Shanghai in mid-2006 that will start producing Wärtsilä Auxpac generating sets for use as marine auxiliary engines.

In output terms a total of 3,367 (2,837) 4-stroke engines manufactured by Wärtsilä's own factories were delivered to customers during the year.

#### Research and development

The thrust of engine research and development in Wärtsilä is to develop new engine versions and to apply common-rail technology to both 2- and 4-stroke engines.

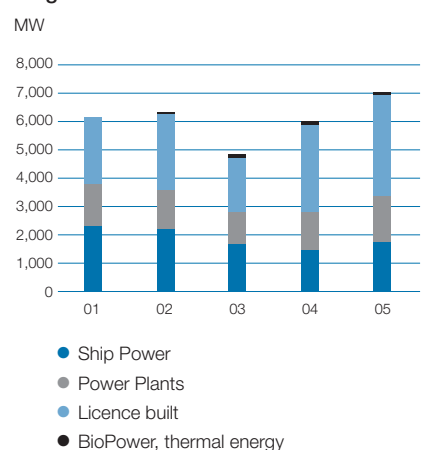
The R&D function was reorganized by combining 2-stroke and 4-stroke product development in the same unit. This unit has global responsibility for engine development as well as development projects related to engines and their automation.

The first RT-flex50 engine, a joint development project with Mitsubishi Heavy Industries, was started up in

#### Megawatts delivered

|                          | 2005  | 2004  | Change % |
|--------------------------|-------|-------|----------|
| Power Plant engines      | 1,607 | 1,363 | 17.9     |
| Ship Power, own engines  | 1,760 | 1,474 | 19.4     |
| Wärtsilä total           | 3,367 | 2,837 | 18.7     |
| By licensees             | 3,577 | 3,053 | 17.2     |
| BioPower, thermal energy | 117   | 121   | -3.3     |
| Engines deliveries total | 7,061 | 6,011 | 17.5     |

#### Megawatts delivered



June and taken into operation in December. Further development of the RT-flex96C focused on efficiency improvements and lower emissions. Development of the new RTA/RT-flex82 engine was started with Hyundai Heavy Industries, the aim being to start up the first such engine at the end of 2007. The Wärtsilä 46F engine series was further developed as well, to make this engine suitable for a wider range of market applications.

A research and development programme was begun in June with several Finnish universities and research institutes. Its aim is to develop a next-generation engine with higher efficiency, lower emissions, a lighter structure and lower manufacturing costs. Wärtsilä's continuing goal is to develop environmentally sound technology that meets its customers' needs.

The propulsion business is concentrating on raising propeller efficiency especially in the case of smaller fixed pitch propellers. Development started on a new series of compact, high-efficiency waterjets as well as a new water-lubricated seal.

#### Events after the period

On February 2, Wärtsilä acquired Aker Kvaerner Power and Automation Systems AS (AKPAS) from Aker Kvaerner. AKPAS supplies power and automation systems for the oil and gas, marine and industrial markets. The company operates mainly in the North Sea region with major oil and gas companies and Norwegian shipyards. AKPAS has annual net sales of EUR 28 million and 135 employees in Stord, Norway. The acquisition price is approximately EUR 12 million. The acquisition supports Wärtsilä's growth strategy.

#### Board's proposals to the AGM 2006

The Board of Directors proposes to the Annual General Meeting on 15 March 2006 that a dividend of 0.90 euros per share and an extra dividend of 0.60 euros per share, making a total dividend of 1.50 euros per share be distributed on the financial year ended 31 December 2005.

The Board also proposes that the AGM authorize 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. The company's own shares may only be purchased using distributable funds.

#### Market outlook in 2006

Demand has remained strong in several segments of the shipbuilding industry. Weaker development in certain areas has been balanced by growth in others, notably the offshore sector and the cruise ships market. Nonetheless, it is clear that uncertainty among decision-makers has increased and there is sensitivity to all signals. In the autumn the volume of commercial seaborne transport started to decline from its all-time high which, coupled with an increase in interest rates, is affecting order activity. A partial recovery in transport volumes as the year drew to a close restored investment levels but higher interest rates, the availability of shipyard capacity and the availability of certain components are still the stronger factors weakening demand for marine vessels. Most shipyards are currently taking orders for delivery in 2009 or beyond.

Based on the insufficiency of shipyard capacity, component availability and feedback from customers, Wärtsilä estimates that the volume of new-building orders will decrease in 2006. This will affect demand for engines and propulsion equipment after a delay of a few months. Although the total number of orders for ships will decline, the market contains active segments and the number of orders in 2006 will remain above the longer-term average. The active segments are offshore, LNG and cruise ships, a trend that favours Wärtsilä's product portfolio.

The availability of certain core components such as crankshafts is length-

ening delivery times throughout the industry. At the moment Wärtsilä is concentrating on deliveries scheduled for 2007 and 2008.

The power plant market continues to be active. In geographical terms demand is still distributed evenly. Demand for gas power plants is growing further. Demand for heavy fuel oil plants will remain high in areas where gas is not available. With the price of oil still high, decisions are focused most of all on the unit costs of generating electricity and therefore on efficiency in particular. Reciprocating piston engines offer the best efficiency and for this reason they are also viewed with favour in the market.

Service will continue to grow strongly through new products and acquisitions. Wärtsilä offers a diverse range of services, tailored solutions and comprehensive training capabilities through its global service network.

#### Wärtsilä's prospects in 2006

Demand in the ship power and energy markets looks likely to remain favourable for Wärtsilä for at least the first half of the current year. 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. Net sales is expected to show further growth in 2007.

6 February 2006

Wärtsilä Corporation  
Board of Directors

## GROUP FINANCIAL STATEMENTS

### Group Income Statement

| MEUR   | Note | 2005     | %     | 2004     | %     |
|--|------|----------|-------|----------|-------|
| <b>Net sales</b>   | 1,3  | 2,638.8  | 100.0 | 2,478.2  | 100.0 |
| Change in inventories of finished goods & work in progress               |      | 28.2     |       | -21.6    |       |
| Work performed by the Group and capitalized                              |      | 0.1      |       | 5.2      |       |
| Other income   | 4    | 26.8     |       | 26.9     |       |
| Material and services  | 5    | -1,522.5 |       | -1,440.5 |       |
| Employee benefit expenses  | 6    | -540.0   |       | -554.4   |       |
| Depreciation   | 7    | -71.6    |       | -74.3    |       |
| Impairment   | 7    |          |       | 11.3     |       |
| Other expenses   |      | -335.5   |       | -318.8   |       |
| <b>Operating result</b>  |      | 224.3    | 8.5   | 112.0    | 4.5   |
| Income from financial assets   |      | 7.2      |       | 8.8      |       |
| Interest income and expenses   | 8    | -11.9    |       | -9.5     |       |
| Other financial income and expenses                                      | 8    | -18.7    |       | -3.0     |       |
| Net income from investments available for sale                           |      | 0.5      |       | 107.7    |       |
| Share of profit of associates  |      | 10.9     |       | 1.4      |       |
| <b>Profit before taxes</b>   |      | 212.4    |       | 217.3    |       |
| Taxes for the period   | 9    | -44.0    |       | -86.1    |       |
| <b>Profit for the financial period</b>                                   |      | 168.4    | 6.4   | 131.3    | 5.3   |
| Attributable to:   |      |          |       |          |       |
| Equity holders of the parent company                                     | 10   | 167.0    |       | 130.0    |       |
| Minority interest  |      | 1.4      |       | 1.3      |       |
|  |      | 168.4    |       | 131.3    |       |
| Earnings per share attributable to equity holders of the parent company: |      |          |       |          |       |
| Earnings per share, EUR  |      | 1.80     |       | 1.42     |       |
| Diluted earnings per share, EUR  |      | 1.78     |       | 1.42     |       |

**Group Balance Sheet, Assets**

| MEUR                           | Note | 31 Dec. 2005   | %            | 31 Dec. 2004   | %            |
|--------------------------------|------|----------------|--------------|----------------|--------------|
| <b>Non-current assets</b>      |      |                |              |                |              |
| Intangible assets              | 11   | 175.4          |              | 76.2           |              |
| Goodwill                       | 11   | 365.7          |              | 359.6          |              |
| Property, plant and equipment  | 12   | 255.7          |              | 342.8          |              |
| Investment properties          | 12   | 17.2           |              | 14.2           |              |
| Equity in associates           | 13   | 108.5          |              | 2.8            |              |
| Investments available for sale | 15   | 284.4          |              | 68.4           |              |
| Interest-bearing investments   | 16   | 27.2           |              | 6.9            |              |
| Deferred tax receivables       | 18   | 77.6           |              | 82.9           |              |
| Trade receivables              | 16   |                |              | 5.2            |              |
| Other receivables              | 16   | 4.2            |              | 5.1            |              |
|                                |      | 1,315.8        | 45.9         | 964.0          | 40.2         |
| <b>Current assets</b>          |      |                |              |                |              |
| Inventories                    |      | 638.6          |              | 565.1          |              |
| Interest-bearing receivables   | 16   | 0.9            |              | 1.9            |              |
| Trade receivables              | 16   | 670.2          |              | 576.9          |              |
| Income tax receivables         |      | 16.1           |              | 12.5           |              |
| Other receivables              | 16   | 107.4          |              | 107.3          |              |
| Cash and cash equivalents      | 17   | 119.6          |              | 169.6          |              |
|                                |      | 1,552.8        | 54.1         | 1,433.3        | 59.8         |
| <b>Assets</b>                  |      | <b>2,868.6</b> | <b>100.0</b> | <b>2,397.3</b> | <b>100.0</b> |

**Group Balance Sheet,  
Shareholders' equity and liabilities**

| MEUR  | Note | 31 Dec. 2005   | %            | 31 Dec. 2004   | %            |
|---|------|----------------|--------------|----------------|--------------|
| <b>Shareholders' equity</b>                               |      |                |              |                |              |
| Share capital   | 20   | 329.4          |              | 323.9          |              |
| Share premium reserve                                     | 20   | 44.0           |              | 27.3           |              |
| Translation differences                                   |      | 7.0            |              | -1.0           |              |
| Fair value reserve  | 22   | 146.9          |              |                |              |
| Retained earnings   | 23   | 625.8          |              | 542.5          |              |
| Total equity attributable to equity holders of the parent |      | 1,153.1        | 40.2         | 892.7          | 37.2         |
| Minority interest   |      | 9.8            | 0.3          | 7.8            | 0.3          |
| <b>Total shareholders' equity</b>                         |      | <b>1,163.0</b> | <b>40.5</b>  | <b>900.5</b>   | <b>37.6</b>  |
| <b>Non-current liabilities</b>                            |      |                |              |                |              |
| Interest-bearing debt                                     | 25   | 229.4          |              | 271.2          |              |
| Deferred tax liabilities                                  | 18   | 78.8           |              | 39.2           |              |
| Pension obligations                                       | 19   | 50.5           |              | 55.7           |              |
| Provisions  | 24   | 17.0           |              | 13.4           |              |
| Other liabilities   | 26   | 1.5            |              | 0.7            |              |
|   |      | 377.2          | 13.1         | 380.2          | 15.9         |
| <b>Current liabilities</b>                                |      |                |              |                |              |
| Interest-bearing debt                                     | 25   | 174.2          |              | 48.8           |              |
| Provisions  | 24   | 104.1          |              | 136.5          |              |
| Advances received   |      | 371.4          |              | 191.8          |              |
| Trade payables  |      | 238.1          |              | 243.2          |              |
| Income tax liabilities                                    |      | 29.9           |              | 48.6           |              |
| Other current liabilities                                 | 26   | 410.7          |              | 447.7          |              |
|   |      | 1,328.5        | 46.3         | 1,116.6        | 46.6         |
| <b>Total liabilities</b>                                  |      | <b>1,705.7</b> | <b>59.5</b>  | <b>1,496.8</b> | <b>62.4</b>  |
| <b>Shareholders' equity and liabilities</b>               |      | <b>2,868.6</b> | <b>100.0</b> | <b>2,397.3</b> | <b>100.0</b> |



## Group Cash Flow Statement

| MEUR  | 2005          | 2004          |
|---|---------------|---------------|
| <b>Cash flows from operating activities:</b>                                |               |               |
| Profit before taxes   | 212.4         | 217.3         |
| Adjustments:  |               |               |
| Depreciation  | 71.6          | 63.0          |
| Share of profit of associates   | -10.9         | -1.4          |
| Selling profit and loss of fixed assets                                     | -11.8         | -118.3        |
| Financial income and expenses   | 23.4          | 3.7           |
| Other changes   | -1.5          |               |
| Cash flow before changes in working capital                                 | 283.1         | 164.4         |
| <b>Changes in working capital:</b>  |               |               |
| Current assets, non-interest-bearing, increase (-) / decrease (+)           | -107.9        | -9.5          |
| Inventories, increase (-) / decrease (+)                                    | -117.1        | -12.2         |
| Current liabilities, non-interest-bearing, increase (-) / decrease (+)      | 105.2         | 98.6          |
| Changes in working capital  | -119.8        | 76.8          |
| <b>Cash flow from operating activities before financial items and taxes</b> | <b>163.3</b>  | <b>241.2</b>  |
| <b>Financial items and taxes:</b>   |               |               |
| Interest and other financial expenses                                       | -47.6         | -29.6         |
| Dividends received from operating activities                                |               | 0.4           |
| Interest and other financial income from operating activities               | 10.9          | 31.5          |
| Income taxes  | -50.5         | -23.5         |
| Financial items and taxes   | -87.3         | -21.1         |
| <b>Cash flow from operating activities</b>                                  | <b>76.0</b>   | <b>220.1</b>  |
| <b>Cash flow from investing activities:</b>                                 |               |               |
| Investments in subsidiary shares  | -126.0        | -7.5          |
| Investments in shares   | -26.2         | -0.5          |
| Investments in tangible and intangible assets                               | -79.0         | -61.0         |
| Proceeds from sale of shares  | -8.6          | 137.5         |
| Proceeds from sale of tangible and intangible assets                        | 51.2          | 12.4          |
| Loan receivables, increase (+) / decrease (-) and other changes             | 3.0           | 3.1           |
| Dividends received from investments   | 7.2           | 8.8           |
| Taxes paid on sales of shares   |               | -7.8          |
| <b>Cash flow from investing activities</b>                                  | <b>-178.3</b> | <b>85.0</b>   |
| <b>Cash flow after investing activities</b>                                 | <b>-102.3</b> | <b>305.0</b>  |
| <b>Cash flow from financing activities:</b>                                 |               |               |
| Issuance of share capital   | 22.1          |               |
| Loans receivables, increase (-) / decrease (+)                              | -44.7         | 5.1           |
| Current loans, increase (+) / decrease (-)                                  | 183.7         | -157.8        |
| New long-term loans   | 53.2          | 30.0          |
| Amortization and other changes to long-term loans                           | -83.0         | -47.2         |
| Dividends paid  | -83.9         | -106.7        |
| Changes in convertible subordinated debentures, increase (+) / decrease (-) |               | -2.8          |
| Other changes   | 0.1           | -5.5          |
| <b>Cash flow from financing activities</b>                                  | <b>47.6</b>   | <b>-284.9</b> |
| <b>Change in liquid funds, increase (+) / decrease (-)</b>                  | <b>-54.7</b>  | <b>20.2</b>   |
| Cash and cash equivalents at beginning of period                            | 169.6         | 151.5         |
| Exchange rate changes   | 4.8           | -2.0          |
| Cash and cash equivalents at end of period                                  | 119.6         | 169.6         |

## Statement of changes in shareholders' equity

| MEUR   | Total equity attributable to equity holders of the parent |                     |                         |                               |                   | Minority Interest | Total equity |         |
|--|---|---------------------|-------------------------|-------------------------------|-------------------|-------------------|--------------|---------|
|  | Share capital   | Share issue premium | Translation differences | Fair value and other reserves | Retained earnings |                   |              | Total   |
| <b>Shareholders' equity on 1 January 2004</b>              | 208.8   | 117.9               |                         |                               | 519.5             | 846.1             | 6.1          | 852.2   |
| Conversion of subordinated debentures                      | 7.2   | 17.5                |                         |                               |                   | 24.6              |              | 24.6    |
| Translation differences                                    |   |                     | -1.0                    |                               |                   | -1.0              | 0.4          | -0.6    |
| Other changes  |   |                     |                         |                               | -0.6              | -0.6              |              | -0.6    |
| <b>Net income recognized directly in equity</b>            | 7.2   | 17.5                | -1.0                    |                               | -0.6              | 23.1              | 0.4          | 23.5    |
| Profit for the financial period                            |   |                     |                         |                               | 130.0             | 130.0             | 1.3          | 131.3   |
| <b>Total recognized income and expenses for the period</b> | 7.2   | 17.5                | -1.0                    |                               | 129.4             | 153.0             | 1.7          | 154.8   |
| Bonus issue  | 108.0   | -108.0              |                         |                               |                   | 0.0               |              | 0.0     |
| Dividends paid   |   |                     |                         |                               | -106.4            | -106.4            |              | -106.4  |
| <b>Shareholders' equity on 31 December 2004</b>            | 323.9   | 27.3                | -1.0                    |                               | 542.5             | 892.7             | 7.8          | 900.5   |
| IAS 39 applied on 1 January 2005                           |   |                     |                         | 184.2                         |                   | 184.2             |              | 184.2   |
| Translation differences                                    |   |                     | 8.0                     |                               |                   | 8.0               | 1.2          | 9.2     |
| Other changes  |   |                     |                         |                               | -0.3              | -0.3              |              | -0.3    |
| Available- for- sale investments                           |   |                     |                         |                               |                   |                   |              |         |
| gain/loss arising from fair valuation, net of taxes        |   |                     |                         | 15.7                          |                   | 15.7              |              | 15.7    |
| transferred to income statement, net of tax                |   |                     |                         | -0.1                          |                   | -0.1              |              | -0.1    |
| Cash flow hedges after taxes                               |   |                     |                         | -52.8                         |                   | -52.8             |              | -52.8   |
| <b>Net income recognized directly in equity</b>            |   |                     | 8.0                     | 146.9                         | -0.3              | 154.6             | 1.2          | 155.8   |
| Profit for the financial period                            |   |                     |                         |                               | 167.0             | 167.0             | 1.4          | 168.4   |
| <b>Total recognized income and expense for the period</b>  |   |                     | 8.0                     | 146.9                         | 166.7             | 321.6             | 2.6          | 324.2   |
| Options exercised  | 5.4   | 16.7                |                         |                               |                   | 22.1              |              | 22.1    |
| Dividends paid   |   |                     |                         |                               | -83.3             | -83.3             | -0.6         | -83.9   |
| <b>Shareholders' equity on 31 December 2005</b>            | 329.4   | 44.0                | 7.0                     | 146.9                         | 625.8             | 1,153.1           | 9.8          | 1,163.0 |

Additional information on share capital is presented in Note 20, for retained earnings in note 22 and for fair value and other reserves in Note 23.

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

### **Basis for preparation of the financial statements**

These are the first consolidated annual financial statements of Wärtsilä Corporation and its subsidiaries (“Wärtsilä Group”) prepared in accordance with International Financial Reporting Standards (“IFRS”). Prior to IFRS, Wärtsilä’s financial statements were based on Finnish Accounting Standards (“FAS”). The consolidated financial statements are prepared in euro and reported in millions of euros. Reporting is based on the historical cost convention unless otherwise stated in the accounting principles below or in the notes to the financial statements.

On 1 January 2005 the Group adopted IFRS standards. IFRS 1 (First-time Adoption of IFRS) was applied at the time of transition. For the adoption of IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation), Wärtsilä applied the exemption for first-time adopters of IFRS not to restate comparative information for 2004. The comparative figures for 2004 and the opening balance sheet on 1 January 2004 have been adjusted in accordance with IFRS and the effects of adoption of IFRS are summarized in Note 33, Transition to IFRS.

### **Use of estimates**

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

### **Principles of consolidation**

The consolidated financial statements include the parent company Wärtsilä Corporation and all subsidiaries in which the parent company directly or indirectly holds more than 50 per cent

of the voting rights or in which Wärtsilä is otherwise in control, as well as the Group’s associated companies (20 to 50 per cent voting rights and significant influence over the company but not control over the financial and operating policies). Associated companies are included in the consolidated financial statements using the equity method. If the Group’s share of the associated company’s losses exceeds its interest in the associated company, the carrying amount is written down to zero. After this losses are only reported if the Group has incurred obligations from the associated company.

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

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

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

### **Foreign subsidiaries**

In the consolidated financial statements, the income statements and cash flows of foreign subsidiaries are translated into euro at the quarterly average exchange rates. Balance sheets are translated into euro at the exchange rates prevailing at the balance sheet date and translation differences are recognized in equity. Translation differences arising after the transition to IFRS are reported separately in the statement of changes in equity, whereas translation differences prior to the transition have been transferred to retained earnings in accordance with the exemptions in IFRS 1.

### **Transactions in foreign currencies**

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

### **Derivatives**

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

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

As regards equity in foreign subsidiaries situated outside the eurozone, these have largely been hedged against exchange rate fluctuations through foreign currency borrowings and foreign

exchange derivatives using the equity hedging method to reduce the effect of exchange rates on the Group's equity. When a foreign subsidiary is sold, these translation differences are included in the gain or loss on disposal reported in the income statement.

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

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

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

#### **Net sales and revenue recognition**

Sales are presented net of indirect sales taxes and discounts. Sales are recognized when the significant risks and rewards connected with ownership have been transferred to the buyer. This usually means that revenue recognition occurs when a product or service is delivered to the customer in accordance with the terms of delivery. Revenue on long-term construction contracts and long-term operating and maintenance agreements is recognized in accordance with the percentage of completion method when it is possible to reliably identify the project and its revenue and costs. The percentage of completion is based on the ratio of costs incurred to total estimated costs to date for long-term construction contracts, while for long-term operating and maintenance agreements it is calculated on the basis of the proportion of the contracted services performed.

#### **Research and development costs**

Research and development costs are expensed in the reporting period during which they occur except for development costs, which are capitalized when

it is probable that the development project will generate future economic benefits for the Group, and when certain criteria, including commercial and technological feasibility, have been met. These projects involve the development of new or significantly improved products or production processes. Capitalized development costs are amortized and the cost of buildings, machinery and facilities for development depreciated on a systematic basis over their expected useful lives. Grants received are reported as a reduction in costs for the period in question.

#### **Employee benefits**

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

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

#### **Share-based payments**

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

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks and similar institutions. Other liquid funds comprise short-term highly liquid investments with an original maturity of three months or less and

which are subject to only minor fluctuations in value.

#### **Trade receivables**

Trade receivables are recognized at their anticipated realizable value, which is the original invoiced amount less an estimated valuation allowance for impairment on these receivables. Receivables are valued individually and reported at their probable value. Credit losses are expensed in the income statement.

#### **Loans receivable and financial liabilities**

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

#### **Inventory valuation**

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

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

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

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

The general guidelines for scheduled amortization are:

|                                    |            |
|------------------------------------|------------|
| Development costs                  | 5–10 years |
| Software                           | 3–7 years  |
| Other intellectual property rights | 5–20 years |

#### **Property, plant and equipment and depreciation**

Fixed assets acquired by the Group are recorded in the balance sheet at cost less accumulated depreciation and impairment losses. The book values of certain

land areas and buildings include revaluation of EUR 5.3 million recorded prior to the transition date of 1 January 2004 and included within the deemed cost of land and building in accordance with the exemption under IFRS 1. The fixed assets of acquired subsidiaries are valued at their fair value at the acquisition date. Depreciation is based on the following estimated useful lives:

|                                |             |
|--------------------------------|-------------|
| Other capitalized expenditures | 3–10 years  |
| Buildings                      | 10–40 years |
| Machinery and equipment        | 5–20 years  |

#### Investment properties

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

#### Leases

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

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

#### Investments in other companies

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

it is impaired, impairment is recognized in the income statement.

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

#### Impairments

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

#### Provisions

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions can arise from warranties, environmental risks, litigations, forecasted losses on projects, onerous contracts and restructuring costs for example.

Estimated future warranty costs relating to products supplied are recorded as provisions. Realized warranty costs, together with changes in warranty liability, are expensed during the reporting period in which they occur.

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

#### Income taxes

The income statement includes taxes on the Group's consolidated taxable income for the reporting period in accordance with local tax regulations, tax adjustments for previous reporting periods and changes in deferred taxes. De-

ferred tax liabilities and assets are calculated on all temporary differences arising from the difference between the tax basis of assets and liabilities and the carrying values using the enacted tax rates at the balance sheet date. The balance sheet includes deferred tax liabilities in its entirety and deferred tax assets at their estimated probable amount.

#### Dividend distribution to the shareholders

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

#### Application of new and amended IFRS standards and IFRIC interpretations

In 2006 Wärtsilä Group will apply the following amended standards and new interpretations published by the IASB in 2004 and 2005:

IAS 39 (Financial Instruments: Recognition and Measurement). Changes made after 31 March 2004:

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

IFRIC 4 interpretation Determining Whether an Arrangement Contains a Lease: issued 2 December 2004, enters into force 1 January 2006.

IFRIC 8 interpretation Scope of IFRS 2: issued 12 January 2006, enters into force 1 May 2006.

Amendment to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures: issued 16 December 2004, enters into force 1 January 2006.

The company considers that the application of these amended standards and new interpretations will have no material impact on the Group's future accounts.

In 2007 Wärtsilä Group will adopt the following new and amended standards published by the IASB in 2005:

IFRS 7 Financial Instruments: Disclosures

Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures.

The Group is currently evaluating the impacts of these standards on its future accounts.

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 1. Segment information

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

In the Power Businesses, the design, related research and development and manufacturing required for the engines sold to both markets take place in the same R&D centres and factories, and the manufacturing process is the same for each market. Similarly, the same Group companies are responsible for the distribution of these products and their service. Capacity costs cannot be reliably allocated to the two different markets. These costs are significant

and vary between the two units in different years. Customers in both markets are capital-intensive corporations with global operations. Development of the two market areas is strongly linked to global economic trends.

Imatra Steel produces long special steels for the automotive industry and other advanced sectors of the mechanical engineering industry. During 2005, Imatra Steel became part of a new steel company, Oy Ovako Ab, that began operations on 10 May. Until that date Imatra Steel is reported as its own segment. Wärtsilä owns 26.5% of Oy Ovako Ab. This holding is consolidated as an associated company and is included under Holdings along with Wärtsilä's other holdings such as Assa Abloy.

The secondary segment consists of geographical areas Europe, America, Asia and other continents. Income statement items not allocated to the segments are items related to financial items and taxes. Non-allocated assets and liabilities consist of tax assets and liabilities.

| Business segments                          | 2005             |              |          |               |  | Group   |
|--|------------------|--------------|----------|---------------|--|---------|
|  | Power Businesses | Imatra Steel | Holdings | Non-allocated |  |         |
| <b>MEUR</b>                                |                  |              |          |               |  |         |
| Net sales                                  | 2,520.3          | 119.0        |          |               |  | 2,638.8 |
| Operating income                           | 202.5            | 21.8         |          |               |  | 224.3   |
| Financial income and expenses, dividends   |                  |              | 5.8      | -29.2         |  | -23.4   |
| Net income from assets available for sales |                  |              | 0.5      |               |  | 0.5     |
| Share of profit of associates              |                  |              | 10.4     | 0.5           |  | 10.9    |
| Income before taxes                        |                  |              |          |               |  | 212.4   |
| Assets                                     | 2,389.7          |              | 385.3    | 93.7          |  | 2,868.6 |
| Liabilities                                | 1,597.0          |              |          | 108.7         |  | 1,705.7 |
| Investments                                | 204.5            | 3.4          | 23.2     |               |  | 231.1   |
| Depreciation                               | 67.2             | 4.4          |          |               |  | 71.6    |

| Business segments                          | 2004             |              |          |               |  | Group   |
|--|------------------|--------------|----------|---------------|--|---------|
|  | Power Businesses | Imatra Steel | Holdings | Non-allocated |  |         |
| <b>MEUR</b>                                |                  |              |          |               |  |         |
| Net sales                                  | 2,224.7          | 254.4        |          |               |  | 2,478.2 |
| Operating income                           | 87.7             | 24.3         |          |               |  | 112.0   |
| Financial income and expenses, dividends   |                  |              | 6.4      | -10.1         |  | -3.7    |
| Net income from assets available for sales |                  |              | 107.7    |               |  | 107.7   |
| Share of profit of associates              |                  |              |          | 1.4           |  | 1.4     |
| Income before taxes                        |                  |              |          |               |  | 217.3   |
| Assets                                     | 2,067.0          | 189.0        | 45.8     | 95.5          |  | 2,397.3 |
| Liabilities                                | 1,285.0          | 123.9        |          | 87.8          |  | 1,496.8 |
| Investments                                | 63.4             | 5.8          |          |               |  | 69.2    |
| Depreciation                               | 50.7             | 12.3         |          |               |  | 63.0    |

The intersegment sales is insignificant.

| Geographical segments | 2005    |       |          |       |               | Group   |
|-----------------------|---------|-------|----------|-------|---------------|---------|
|                       | Europe  | Asia  | Americas | Other | Non-allocated |         |
| <b>MEUR</b>           |         |       |          |       |               |         |
| Net sales             | 1,108.8 | 951.0 | 395.4    | 183.6 |               | 2,638.8 |
| Assets                | 2,227.4 | 261.3 | 264.2    | 22.1  | 93.7          | 2,868.6 |
| Investments           | 186.3   | 19.6  | 24.8     | 0.5   |               | 231.1   |

| Geographical segments | 2004    |       |          |       |               | Group   |
|-----------------------|---------|-------|----------|-------|---------------|---------|
|                       | Europe  | Asia  | Americas | Other | Non-allocated |         |
| <b>MEUR</b>           |         |       |          |       |               |         |
| Net sales             | 1,140.5 | 796.1 | 368.4    | 173.2 |               | 2,478.2 |
| Assets                | 1,928.1 | 177.6 | 178.2    | 18.0  | 95.5          | 2,397.3 |
| Investments           | 50.3    | 14.5  | 3.9      | 0.5   |               | 69.2    |

In geographical segments net sales is split by customers destination and assets and investments by origin.

## 2. Acquisitions and disposals

### Acquisitions 2005

#### DEUTZ AG

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

#### Acquisition price:

|                               |        |
|-------------------------------|--------|
| Consideration paid in cash    | 114.6  |
| Acquisition costs             | 1.1    |
|                               | <hr/>  |
|                               | 115.7  |
| Acquired assets to fair value | -113.1 |
| Goodwill                      | 2.6    |

#### Specification of acquired assets:

|                         |       |
|-------------------------|-------|
| Customer relations      | 85.2  |
| Trademark               | 6.4   |
| Technology              | 13.3  |
| Machinery and equipment | 0.5   |
| Inventories             | 8.0   |
| Pension obligations     | -0.4  |
| <b>Total</b>            | <hr/> |
|                         | 113.1 |

#### GERHARDT HOLDING CO. INC

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

#### Acquisition price:

|                                |       |
|--------------------------------|-------|
| Consideration paid in cash     | 9.8   |
| Other direct acquisition costs | 0.8   |
|                                | <hr/> |
|                                | 10.7  |
| Acquired assets to fair value  | 10.7  |
| Goodwill                       | 0.0   |

#### Specification of acquired assets:

|                       |       |
|-----------------------|-------|
| Trademark             | 0.6   |
| Machinery & equipment | 2.6   |
| Inventories           | 4.7   |
| Receivables           | 3.8   |
| Liabilities           | -0.9  |
| <b>Total</b>          | <hr/> |
|                       | 10.7  |

#### NAVALIPS S.A.

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

#### Acquisition price:

|                               |      |
|-------------------------------|------|
| Consideration paid in cash    | 0.2  |
| Acquired assets to fair value | 1.1  |
| Goodwill                      | -1.0 |

Negative goodwill has been booked in the income statement.

#### Specification of acquired assets:

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

### Acquisitions 2004

#### Ciserv Europort BV.

At the beginning of June Wärtsilä acquired two Dutch marine electrical repair and service companies. The new company was named Ciserv Europort BV. It has been consolidated as a subsidiary from 30 June 2004 and the sales in 2004 were EUR 3.5 million.

#### Acquisition price:

|                               |     |
|-------------------------------|-----|
| Consideration paid in cash    | 3.0 |
| Acquired assets to fair value | 1.3 |
| Goodwill                      | 1.7 |

#### Specification of acquired assets:

|                               |       |
|-------------------------------|-------|
| Intangible assets             |       |
| Property, plant and equipment | 0.2   |
| Inventories                   | 0.4   |
| Receivables                   | 1.6   |
| Interest-bearing debt         | 0.0   |
| Non-interest-bearing debt     | -0.9  |
| <b>Total</b>                  | <hr/> |
|                               | 1.3   |

**Disposals 2005**

**IMATRA STEEL OY**

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

Restructuring gave EUR 5.3 million goodwill in the associated company.

**Value transferred:**

|   |             |
|---|-------------|
| Equity at 30 April 2005 in Imatra Steel Group | 71.6        |
| Conversion of loan to equity                  | 23.2        |
| <b>Total</b>                                  | <b>94.8</b> |

**Specification of transferred net assets:**

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

**3. Projects for which percentage-of-completion method is applied**

Sales include EUR 312.3 million (203.3) of income recognized based on the stage of completion of long-term construction contracts. The cumulative revenue recognized from long-term construction contracts in progress amounted to MEUR 579.5 (443.4), with a result of MEUR 3.8 (35.5). The total amount of advances received is MEUR 299.8 (191.7). Trade receivables from the revenue recognition netted with the advances received are EUR 77.3 million (45.6).

**4. Other operating income**

| MEUR                            | 2005        | 2004        |
|---------------------------------|-------------|-------------|
| Rental income                   | 2.1         | 2.6         |
| Profit on sales of fixed assets | 13.2        | 10.1        |
| Government grants               | 2.9         | 1.8         |
| Sales of scrap                  | 1.9         | 4.6         |
| Other operating income          | 6.6         | 7.8         |
| <b>Total</b>                    | <b>26.8</b> | <b>26.9</b> |

**5. Material and services**

| MEUR                                | 2005            | 2004            |
|-------------------------------------|-----------------|-----------------|
| <b>Raw material and consumables</b> |                 |                 |
| Purchases during the financial year | -993.7          | -958.4          |
| Change in inventories               | 90.6            | 28.6            |
| External services                   | -619.4          | -510.7          |
| <b>Total</b>                        | <b>-1,522.5</b> | <b>-1,440.5</b> |

**6. Employee benefit expenses**

| MEUR                                 | 2005         | 2004         |
|--------------------------------------|--------------|--------------|
| Wages and salaries                   | 436.2        | 456.6        |
| Pension costs                        |              |              |
| Defined benefit plans                | 5.4          | -11.7        |
| Other pension and past service costs | 36.9         | 47.7         |
| Other compulsory personnel costs     | 61.5         | 61.8         |
| <b>Total</b>                         | <b>540.0</b> | <b>554.4</b> |

Disability pension obligation of EUR 27.3 million was reversed in Finland in 2004 owing to changes in the pension system.

**Salaries and emoluments to senior management**

|  |     |     |
|--|-----|-----|
| Presidents and members of the Board of Directors | 1.0 | 0.9 |
|--|-----|-----|

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

| Personnel on average | 2005          | 2004          |
|----------------------|---------------|---------------|
| Power Businesses     | 11,625        | 11,133        |
| Imatra Steel         | 424           | 1,228         |
| <b>Total</b>         | <b>12,049</b> | <b>12,361</b> |

During 2005 has Imatra Steel was consolidated for four months.



## 7. Depreciation and writedowns

### Depreciation according to plan

| MEUR  | 2005        | 2004        |
|---|-------------|-------------|
| Intangible assets                           | 4.0         | 6.7         |
| Other long-term expenditure                 | 18.9        | 9.1         |
| Buildings and structures                    | 9.1         | 9.6         |
| Machinery and equipment                     | 33.3        | 43.5        |
| Other tangible assets                       | 6.3         | 5.3         |
| Construction in progress                    |             | 0.1         |
| <b>Total depreciation according to plan</b> | <b>71.6</b> | <b>74.3</b> |

### Writedowns and reversals of fixed assets

-11.3

In 2004 a EUR 14.5 million writedown related to restructuring measures was reversed. As of January 2004 goodwill has not been amortized.

## 8. Financial income and expenses

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

| MEUR   | 2005         | 2004        |
|--|--------------|-------------|
| <b>Dividend income</b>                                     | <b>7.2</b>   | <b>8.8</b>  |
| Interest income  | 2.9          | 4.2         |
| Interest expenses  |              |             |
| Current and non-current loans                              | -11.1        | -12.8       |
| Other  | -3.7         | -0.9        |
| Total interest expenses                                    | -14.7        | -13.7       |
| <b>Total interest income and expenses</b>                  | <b>-11.9</b> | <b>-9.5</b> |
| Other financial income                                     | 5.5          | 1.0         |
| Changes in fair values of derivative financial instruments | -3.8         |             |
| Other financial expenses                                   | -18.4        | -3.3        |
| Exchange rate differences                                  | -2.1         | -0.4        |
| Writedowns of financial assets                             |              | -0.4        |
| <b>Total other financial income and expenses</b>           | <b>-18.7</b> | <b>-3.0</b> |

## 9. Income taxes

| MEUR  | 2005         | 2004         |
|---|--------------|--------------|
| Income taxes on operations  |              |              |
| for the financial year  | -42.4        | -62.4        |
| for prior years   | 1.9          | -0.5         |
| Change in deferred taxes  | -3.5         | -23.2        |
| <b>Total</b>  | <b>-44.0</b> | <b>-86.1</b> |
| Profit before taxes   | 212.4        | 217.3        |
| Tax calculated at the domestic corporation tax rate <sup>1</sup>  | -55.2        | -63.0        |
| Effect of changed tax rates                                       |              | -5.6         |
| Effect of different tax rates in foreign subsidiaries             | -3.3         | -2.2         |
| Effect of income not subject to tax and non-deductible expenses   | 1.4          | -6.5         |
| Utilization of previously unrecognized tax losses carried forward | 12.6         | 6.1          |
| Unrecognized taxes on losses carried forward                      | -7.4         | -7.1         |
| Other taxes   | -4.9         | -7.9         |
| Effect of share of profit of associates                           | 2.8          | 0.4          |
| Other temporary differences                                       | 8.0          | 0.3          |
| Income tax for prior years  | 1.9          | -0.5         |
| <b>Tax charge</b>   | <b>-44.0</b> | <b>-86.1</b> |

<sup>1</sup> In 2005 26%, in 2004 29%

## 10. Earnings per share

Earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of shares outstanding. In calculations of diluted earnings per share, the weighted average number of shares is adjusted by the dilutive effect of stock options outstanding during the period.

| MEUR  | 2005   | 2004   |
|---|--------|--------|
| Profit attributable to equity holders of the parent company (basic/diluted) | 167.0  | 130.0  |
| Thousands of shares   |        |        |
| Weighted average number of shares outstanding                               | 93,010 | 91,341 |
| Effect of issued share options  | 820    | 438    |
| Diluted weighted average number of shares outstanding                       | 93,830 | 91,779 |
| Basic earnings per share (EUR)  | 1.80   | 1.42   |
| Diluted earnings per share (EUR)  | 1.78   | 1.42   |

## 11. Intangible assets

| MEUR  | Intangible rights | Construction in progress and advances paid | Other long-term expenditure | Goodwill     | Total 2005   | Total 2004   |
|---|-------------------|--|-----------------------------|--------------|--------------|--------------|
| Acquisition cost at 1 January                       | 48.3              | 8.0  | 79.0                        | 457.9        | 593.3        | 602.0        |
| Changes in exchange rates                           | 0.2               |  | 0.3                         | 5.0          | 5.5          | -2.3         |
| Acquisitions  |                   |  | 105.5                       | 2.6          | 108.1        |              |
| Disposals   |                   |  | -1.5                        | -1.0         | -2.6         |              |
| Additions   | 3.9               | 6.5  | 6.4                         |              | 16.9         | 18.8         |
| Disposals   | -0.2              |  | -6.3                        |              | -6.5         | -25.2        |
| Intra-balance sheet transfer                        | 0.4               | -6.0                                       | 39.2                        |              | 33.5         |              |
| Acquisition cost at 31 December                     | 52.6              | 8.5  | 222.5                       | 464.5        | 748.2        | 593.3        |
| Accumulated depreciation at 1 January               | -20.4             |  | -38.8                       | -98.3        | -157.5       | -164.8       |
| Changes in exchange rates                           | -0.1              |  | -0.2                        | -0.5         | -0.7         | 0.6          |
| Accumulated depreciation on disposals and transfers | 0.2               |  | 6.7                         |              | 6.9          | 22.1         |
| Depreciation during the financial year              | -4.0              |  | -18.9                       |              | -22.8        | -15.8        |
| Impairments   |                   |  |                             |              |              | 0.3          |
| Intra-balance sheet transfer                        |                   |  | -32.9                       |              | -32.9        |              |
| Accumulated depreciation at 31 December             | -24.3             |  | -83.9                       | -98.8        | -207.0       | -157.5       |
| <b>Book value at 31 December 2005</b>               | <b>28.3</b>       | <b>8.5</b>                                 | <b>138.6</b>                | <b>365.7</b> | <b>541.1</b> |              |
| <b>Book value at 31 December 2004</b>               | <b>27.8</b>       | <b>8.0</b>                                 | <b>40.3</b>                 | <b>359.6</b> |              | <b>435.8</b> |

As of January 2004 goodwill has not been amortized.

#### Impairment test for cash-generating units containing goodwill

| MEUR             | 2005         | 2004         |
|------------------|--------------|--------------|
| Power Businesses | 365.7        | 358.6        |
| Imatra Steel     |              | 1.0          |
| <b>Total</b>     | <b>365.7</b> | <b>359.6</b> |

The recoverable amount of the cash-generating units (CGU) is determined on value-in-use calculations, based on cash flow projections from strategic plans, extending over a five- year period. These plans have been approved by the management. The estimated performance of the CGUs is based on utilization of the property, plant and equipment in their current condition. Cash flows for the period extending over the set five- year period in the strategic plans are calculated using the terminal value method. A steady growth rate is used in projecting the terminal value.

The discount rate is the weighted average pre-tax cost of capital (WACC) as defined by Wärtsilä. The components of the WACC are risk-free rate, market risk premium, industry specific beta, cost of debt and debt equity ratio. Wärtsilä has used a WACC of 7.8% (2004: 8.9%) in the calculations.

As a result of the impairment test no impairment loss was recognized for the period ended 31 December 2004 and 2005 respectively. In the opening balance sheet at 1 January 2004 an impairment of EUR 3.4 million was recognized on BioPower. In management's opinion changes in the basic assumptions used to form the fair value of the units would not change the real value of the units significantly, nor would their fair values be exceeded. The following cash-generating units have significant carrying amounts of goodwill:

| MEUR         | 2005         | 2004         |
|--------------|--------------|--------------|
| Propulsion   | 262.0        | 257.6        |
| Ciserv       | 11.3         | 11.1         |
| Other        | 92.5         | 90.9         |
| <b>Total</b> | <b>365.7</b> | <b>359.6</b> |

## 12. Property, plant & equipment

| MEUR  | Land and water | Buildings and structures | Construction            |                             | Other tangible assets | Investment properties | Total 2005 | Total 2004 |
|---|----------------|--------------------------|-------------------------|-----------------------------|-----------------------|-----------------------|------------|------------|
|   |                |                          | Machinery and equipment | in progress & advances paid |                       |                       |            |            |
| Acquisition cost at 1 January                           | 24.8           | 213.2                    | 649.1                   | 11.5                        | 66.0                  | 14.2                  | 978.8      | 988.6      |
| Changes in exchange rates                               | 0.1            | 2.4                      | 7.8                     | 0.3                         | 1.9                   |                       | 12.6       | -15.0      |
| Acquisitions  | 1.9            | 0.4                      | 3.6                     | 0.1                         |                       |                       | 6.0        | 0.2        |
|   | -3.6           | -12.4                    | -53.6                   | -4.4                        | -0.7                  |                       | -74.7      |            |
| Additions   |                | 8.3                      | 35.0                    | 12.7                        | 6.2                   |                       | 62.1       | 48.5       |
| Disposals   | -6.1           | -52.7                    | -202.9                  | -0.2                        | -2.0                  | -2.2                  | -266.1     | -43.5      |
| Intra-balance sheet transfer                            | 0.6            | -4.3                     | 3.7                     | -7.3                        | 1.4                   | 5.2                   | -0.6       |            |
| Acquisition cost at 31 December                         | 17.7           | 154.8                    | 442.8                   | 12.7                        | 72.9                  | 17.2                  | 718.1      | 978.8      |
| Accumulated depreciation at 1 January                   |                | -104.4                   | -473.2                  | -0.5                        | -43.7                 |                       | -621.8     | -616.0     |
| Changes in exchange rates                               |                | -0.7                     | -3.6                    | -0.1                        | -1.3                  |                       | -5.7       | 9.1        |
| Accumulated depreciation on disposals and transfers     |                | 28.4                     | 198.5                   | -0.1                        | 4.2                   |                       | 231.1      | 32.6       |
| Depreciation during the financial year                  |                | -9.1                     | -33.3                   | 0.0                         | -6.3                  |                       | -48.7      | -58.5      |
| Impairments   |                |                          |                         |                             |                       |                       |            | 11.0       |
| Accumulated depreciation at 31 December                 |                | -85.8                    | -311.5                  | -0.7                        | -47.1                 |                       | -445.2     | -621.8     |
| <b>Book value at 31 December 2005</b>                   | 17.7           | 69.0                     | 131.3                   | 11.9                        | 25.8                  | 17.2                  | 272.9      |            |
| <b>Book value at 31 December 2004</b>                   | 34.4           | 99.1                     | 176.0                   | 10.9                        | 22.3                  | 14.2                  |            | 357.0      |
| Value of financial leased assets included in book value |                |                          |                         |                             |                       |                       |            |            |
| <b>2005</b>   |                | 0.7                      | 3.5                     |                             | 0.3                   |                       | 4.5        |            |
| <b>2004</b>   |                | 0.8                      | 0.5                     |                             | 0.7                   |                       |            | 2.0        |

## 13. Investments in associated companies

| MEUR                             | 2005  | 2004 |
|----------------------------------|-------|------|
| Book value at 1 January          | 2.8   | 2.7  |
| Buying of shares                 | 95.6  | 0.1  |
| Share of results                 | 10.9  | 1.4  |
| Dividends                        | -0.4  | -0.8 |
| Selling / decrease of shares     | -0.5  | -0.6 |
| <b>Book value at 31 December</b> | 108.5 | 2.8  |

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

### Year 2005:

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

### Year 2004:

| MEUR  | Holding % | Assets | Liabilities | Equity | Net sales | Profit for the period |      |
|---|-----------|--------|-------------|--------|-----------|-----------------------|------|
| AWEK Industrial Patents Ltd. Oy               | Finland   | 25.0   | 0.4         | 0.1    | 0.2       | 2.0                   | 0.0  |
| Wartsila Navim Diesel S.r.l.                  | Finland   | 40.0   | 8.6         | 4.8    | 3.9       | 24.5                  | 3.4  |
| Navalips SA                                   | Italy     | 50.0   | 4.1         | 2.4    | 2.2       | 4.1                   | -0.4 |
| Repropel Sociedad de reparacao de helices LDA | Portugal  | 50.0   | 0.7         | 0.3    | 0.1       | 1.0                   | 0.1  |
| WD Power Investment Ky                        | Finland   | 21.7   | 10.5        | 0.0    | 10.5      |                       | 0.0  |

#### 14. Joint ventures

The Group has a 50% interest in the joint venture company Wärtsilä Qiyao Diesel Company Ltd. in China. The company is in the start-up process and is building a diesel engine factory in Linggang outside Shanghai. Part of the planned share capital has been paid in by both parties and cost commitments for the factory plant totalled roughly EUR 5 million at the year end.

#### 15. Available-for-sale investments

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

| MEUR                               | 2005         | 2004        |
|------------------------------------|--------------|-------------|
| Book value at 1 January            | 68.4         | 96.1        |
| Changes in exchange rates          | 1.8          | -1.1        |
| Acquisitions                       | 3.0          | 0.3         |
| Disposals                          | -1.1         | -26.6       |
| Writedowns                         |              | -0.4        |
| Fair value adjustment              | 212.2        |             |
| <b>Book value at 31 December</b>   | <b>284.4</b> | <b>68.4</b> |
| Selling profit in income statement | 0.5          | 107.7       |

| MEUR                                 | 2005<br>Book value | 2005<br>Market value | 2004<br>Book value |
|--------------------------------------|--------------------|----------------------|--------------------|
| <b>Listed shares</b>                 |                    |                      |                    |
| Rautaruukki Corporation K            |                    |                      | 0.1                |
| Sampo Plc A                          | 3.8                | 28.0                 | 3.8                |
| Technopolis Plc                      | 0.1                | 0.0                  | 0.1                |
| Assa Abloy Ab                        | 41.8               | 229.9                | 41.8               |
| <b>Total values of listed shares</b> | <b>45.7</b>        | <b>258.0</b>         | <b>45.8</b>        |
| Other shares                         | 26.4               | 26.4                 | 22.6               |
| <b>Total shares</b>                  | <b>72.1</b>        | <b>284.4</b>         | <b>68.4</b>        |

#### 16. Trade receivables, other receivables and interest-bearing investments

| MEUR   | 2005         | 2004         |
|--|--------------|--------------|
| <b>Long-term</b>                                   |              |              |
| Non-interest-bearing                               |              |              |
| Trade receivables from other companies             |              | 5.2          |
| Loans receivable from other companies              | 2.4          | 3.5          |
| Other receivables                                  | 1.7          | 1.6          |
| Interest-bearing                                   |              |              |
| Interest-bearing investments, associated companies | 22.7         | 2.2          |
| Interest-bearing investments, others               | 4.5          | 4.8          |
| <b>Total</b>                                       | <b>31.4</b>  | <b>17.2</b>  |
| <b>Current</b>                                     |              |              |
| Non-interest-bearing                               |              |              |
| Trade receivables from associated companies        | 3.4          | 2.6          |
| Trade receivables from others                      | 666.8        | 574.2        |
| Loan receivables from other companies              | 0.2          | 0.1          |
| Accrued receivables from associated companies      | 0.7          |              |
| Other receivables                                  | 106.7        | 107.3        |
| Interest-bearing                                   |              |              |
| Interest-bearing investments, others               | 0.9          | 1.9          |
| <b>Total</b>                                       | <b>778.7</b> | <b>686.1</b> |

| MEUR                        | 2005  | 2004  |
|-----------------------------|-------|-------|
| <b>Other receivables</b>    |       |       |
| Interest receivables        | 1.0   | 3.9   |
| Other financial items       | 5.7   | 5.7   |
| Insurance receivables       | 1.7   | 4.8   |
| Rental receivables          | 2.3   | 2.2   |
| Project accruals            | 4.4   | 15.2  |
| Other accruals              | 29.4  | 24.2  |
| Value-added tax receivables | 25.9  | 21.0  |
| Other receivables           | 37.3  | 32.0  |
| <b>Total</b>                | 108.5 | 108.9 |
| Non-current                 | 1.7   | 1.6   |
| Current                     | 106.7 | 107.3 |

### 17. Cash and cash equivalents

| MEUR                   | 2005  | 2004  |
|------------------------|-------|-------|
| Cash and bank balances | 99.9  | 151.0 |
| Financial assets       | 19.8  | 18.6  |
| <b>Total</b>           | 119.6 | 169.6 |

### 18. Deferred taxes

| MEUR                            | 2005 | 2004 |
|---------------------------------|------|------|
| <b>Deferred tax assets</b>      |      |      |
| Tax loss carryforwards          | 41.0 | 48.4 |
| Employee benefits               | 4.9  | 6.1  |
| Restructuring plan              |      | 4.3  |
| Group eliminations              | 10.8 | 11.0 |
| Other temporary differences     | 21.0 | 13.2 |
| <b>Total</b>                    | 77.6 | 82.9 |
| <b>Deferred tax liabilities</b> |      |      |
| Intangible obligations assets   | 6.9  | 23.3 |
| Pension obligations             |      | 0.3  |
| Fair value adjustments          | 56.2 |      |
| Other temporary differences     | 15.7 | 15.6 |
| <b>Total</b>                    | 78.8 | 39.2 |
| <b>Net deferred tax assets</b>  | -1.1 | 43.7 |

At December 31, 2005 the Group had temporary differences on which no deferred tax receivables were booked totalling EUR 71.8 million, as it is uncertain if they will be realized. Most of them were related to cumulative losses, in total EUR 69.0 million.

### 19. Pension obligations

| MEUR                             | 2005 | 2004 |
|----------------------------------|------|------|
| Defined benefit plan             | 22.0 | 26.4 |
| Other past service obligations   | 28.4 | 29.2 |
| <b>Pension obligations total</b> | 50.5 | 55.7 |

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

| MEUR  | 2005        | 2004        |
|---|-------------|-------------|
| <b>Amounts recognized in the balance sheet:</b> |             |             |
| Present value of unfunded obligations           | 8.4         | 9.7         |
| Present value of funded obligations             | 283.6       | 258.7       |
| Fair value of plan assets                       | -291.7      | -250.2      |
| Unrecognized actuarial gains (-) and losses (+) | 6.5         | -4.4        |
| Unrecognized past service costs                 | -0.1        | -0.1        |
| Unrecognized assets                             | 15.4        | 12.8        |
| <b>Net liability</b>                            | <b>22.0</b> | <b>26.4</b> |

|   |             |             |
|---|-------------|-------------|
| <b>Balance sheet reconciliation:</b>          |             |             |
| Net obligations at 1 January                  | 26.4        | 45.2        |
| Translation differences                       | -0.1        | 0.0         |
| Net periodic pension cost in income statement | 5.4         | -11.7       |
| Contribution paid to the fund                 | -11.1       | -9.3        |
| Benefits paid to the retirees from the fund   | -0.3        | -0.4        |
| Change in limit on assets                     | 2.6         | 2.5         |
| Impact of acquired and disposed companies     | -0.9        |             |
| <b>Net liability at 31 December</b>           | <b>22.0</b> | <b>26.4</b> |

**Expenses recognized in the income statement:**

|  |            |              |
|--|------------|--------------|
| Current service cost                             | 7.7        | 9.3          |
| Interest cost                                    | 11.4       | 11.9         |
| Expected return on plan assets                   | -12.9      | -12.5        |
| Actuarial gains (-) and losses (+)               | -0.3       | -1.5         |
| Past service costs                               | -0.1       | 6.1          |
| Gains and losses on curtailments and settlements | -0.4       | -25.0        |
| <b>Total defined benefit expenses</b>            | <b>5.4</b> | <b>-11.7</b> |

|                                     |             |             |
|-------------------------------------|-------------|-------------|
| <b>Actual return on plan assets</b> | <b>24.2</b> | <b>12.3</b> |
|-------------------------------------|-------------|-------------|

| Actuarial assumptions:                      | 2005    |          | 2004    |          |
|---|---------|----------|---------|----------|
|   | Europe  | Other    | Europe  | Other    |
| Discount rate (%)                           | 3.5–6.0 | 2.0–13.0 | 3.5–6.0 | 2.0–11.0 |
| Expected rates of return on plan assets (%) | 4.0–6.5 | 2.5–9.0  | 3.5–7.0 | 2.5–11.0 |
| Expected rates on salary increase (%)       | 1.5–4.0 | 1.0–10.0 | 1.5–4.0 | 1.0–10.0 |

## 20. Share capital of the parent company

| Share capital                    | Number of shares  | Share capital | Share issue premium | Total        |
|----------------------------------|-------------------|---------------|---------------------|--------------|
| 1 January 2004                   | 59,649,972        | 208.8         | 117.9               | 326.6        |
| Debentures converted 25 May 2004 | 2,050,440         | 7.2           |                     | 7.2          |
| Bonus issue at 7 December 2004   | 30,850,205        | 108.0         | -90.6               | 17.4         |
| 31 December 2004                 | 92,550,617        | 323.9         | 27.3                | 351.2        |
| Bonds with options subscribed    | 1,556,499         | 5.4           | 16.7                | 22.2         |
| <b>31 December 2005</b>          | <b>94,107,116</b> | <b>329.4</b>  | <b>44.0</b>         | <b>373.4</b> |

## 21. Option rights

| Changes in option rights 2005        | Option scheme 2001 |                               | Option scheme 2002 |                               | Total            |                               |
|--------------------------------------|--------------------|-------------------------------|--------------------|-------------------------------|------------------|-------------------------------|
|                                      | Option rights      | Shares based on option rights | Option rights      | Shares based on option rights | Option rights    | Shares based on option rights |
| 1 January 2005                       | 1,500,000          | 2,250,000                     | 800,000            | 1,200,000                     | 2,300,000        | 3,450,000                     |
| Shares subscribed with option rights | 680,366            | 1,020,549                     | 357,300            | 535,950                       | 1,037,666        | 1,556,499                     |
| <b>31 December 2005</b>              | <b>819,634</b>     | <b>1,229,451</b>              | <b>442,700</b>     | <b>664,050</b>                | <b>1,262,334</b> | <b>1,893,501</b>              |

### Option rights for management

Following the decision of the AGM on 20 March 2001, a total of 1,500,000 options were issued to key persons in the Wärtsilä Group, entitling them to subscribe for Wärtsilä B shares. The share subscription period began on 1 April 2003 and ends on 31 March 2007. Any extra dividends distributed after 25 May 2001 and before the subscription of shares will be deducted from the subscription price. The share option scheme covers 78 individuals. Trading in the 2001 options began on the Helsinki Stock Exchange on 7 March 2005.

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

Under the terms and conditions of Wärtsilä's 2001 and 2002 option schemes, should the company increase its share capital with a bonus issue before the subscription of shares, the share subscription ratio shall be amended so that the ratio to the share capital of shares to be subscribed for by virtue of the options remains unchanged. Accordingly, the share subscription price as determined under the terms and conditions of the option schemes will be divided by 1.5 and two (2) options shall entitle their holder to subscribe for three (3) Wärtsilä Corporation B shares. The effect of the extra dividend, decided at the extra Annual General Meeting on 1 December 2004, on the share subscription price of the 2001 options is EUR 16.70 and on the share subscription price of the 2002 options EUR 9.50.

The company had no other share-linked personnel incentive schemes in force during 2005.

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

### Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 247,909 Wärtsilä Corporation shares, which represent 0.3% of the stock and 0.3% of the voting rights.

Under the 2001 option scheme issue the CEO and his deputy hold 104,000 option rights, entitling them to subscribe for altogether 156,000 shares, or 0.2% of the current total number of shares and 0.05% of the voting rights.

Under the 2002 option scheme issue the CEO and his deputy hold altogether 65,000 option rights, entitling them to subscribe for at most 97,500 shares, or 0.1% of the current total number shares and 0.03% of the voting rights.

**22. Fair value and other reserves**

| MEUR   | Cash flow<br>hedges | Other<br>hedges | Investments<br>available<br>for sale | Total |
|--|---------------------|-----------------|--------------------------------------|-------|
| Difference between fair value and book value |                     |                 |                                      |       |
| 1 January 2005                               | 58.8                | -0.8            | 191.2                                | 249.1 |
| Deferred tax liability                       | -15.5               | 0.2             | -49.7                                | -64.9 |
| Fair value and other reserves                |                     |                 |                                      |       |
| 1 January 2005                               | 43.3                | -0.6            | 141.5                                | 184.2 |
| Fair value adjustments                       | -71.6               | -0.2            | 21.1                                 | -50.7 |
| Deferred tax liability                       | 18.9                | 0.1             | -5.5                                 | 13.5  |
| <b>Fair value and other reserves</b>         |                     |                 |                                      |       |
| <b>31 December 2005</b>                      | -9.3                | -0.8            | 157.1                                | 146.9 |

**23. Distributable equity**

| MEUR   | 2005  | 2004   |
|--|-------|--------|
| Retained earnings on 31 December                 | 625.8 | 542.5  |
| of which restricted                              | -63.8 | -100.8 |
| Voluntary provisions and depreciation difference | -6.0  | -31.7  |
| Deferred tax liability                           | 1.6   | 8.5    |
| Non-distributable share issue gains              | -3.8  | -3.8   |
| <b>Distributable equity</b>                      | 553.8 | 414.6  |

**24. Provisions**

| MEUR                             | Litigation | Warranty<br>liabilities | Foreseeable<br>losses | Restruc-<br>turing | Other<br>provisions | Total<br>2005 | Total<br>2004 |
|----------------------------------|------------|-------------------------|-----------------------|--------------------|---------------------|---------------|---------------|
| Provisions at 1 January          | 9.7        | 70.5                    | 22.0                  | 41.0               | 6.5                 | 149.8         | 132.3         |
| Changes in exchange rates        |            | 0.4                     | 0.1                   |                    |                     | 0.4           |               |
| Additions                        | 2.4        | 39.9                    | 7.8                   |                    | 9.3                 | 59.3          | 87.4          |
| Used provisions                  | -2.3       | -43.8                   | -8.1                  | -24.0              | -1.7                | -79.9         | -62.4         |
| Released provisions              | -4.5       |                         | -5.7                  | -0.2               | 1.8                 | -8.6          | -7.6          |
| <b>Provisions at 31 December</b> | 5.3        | 67.0                    | 16.1                  | 16.7               | 16.2                | 121.2         | 149.8         |
| <b>Non-current</b>               |            |                         |                       |                    |                     | 17.0          | 13.4          |
| <b>Current</b>                   |            |                         |                       |                    |                     | 104.1         | 136.5         |

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

**25. Interest-bearing liabilities**

| MEUR  | 2005          |            | 2004       |            |
|---|---------------|------------|------------|------------|
| Non-current   | Book<br>value | Fair value | Book value | Fair value |
| Loans from financial institutions                                 | 186.8         | 186.8      | 194.9      | 194.9      |
| Loan from pension institutions                                    | 32.6          | 32.9       | 70.9       | 72.4       |
| Finance lease liabilities   | 3.7           | 3.7        | 1.2        | 1.2        |
| Other loans   | 6.3           | 6.3        | 4.2        | 4.2        |
| <b>Total</b>  | 229.4         | 229.7      | 271.2      | 272.7      |
| <b>Current</b>  |               |            |            |            |
| Loans from financial institutions                                 | 138.0         | 138.0      | 2.3        | 2.3        |
| Current portion of long-term loans from<br>financial institutions | 5.9           | 5.9        | 9.7        | 9.7        |
| Current portion of long-term loans from<br>pension institutions   | 25.8          | 26.1       | 31.8       | 32.4       |
| Current portion of other long-term interest-<br>bearing loans     | 0.7           | 0.6        | 0.3        | 0.3        |
| Finance lease liabilities   | 1.4           | 1.4        | 0.7        | 0.7        |
| Other liabilities   | 2.6           | 2.6        | 4.0        | 4.0        |
| <b>Total</b>  | 174.2         | 174.6      | 48.8       | 49.3       |



### Long-term debt with maturity profile

| MEUR                          | Bank loans | Pension loans | Finance lease | Other loans | Total |
|-------------------------------|------------|---------------|---------------|-------------|-------|
| 2006                          | 5.9        | 25.8          | 1.4           | 0.7         | 33.7  |
| 2007                          | 12.6       | 17.4          | 1.7           | 6.3         | 38.0  |
| 2008                          | 12.6       | 9.4           | 1.3           |             | 23.4  |
| 2009                          | 48.3       | 5.2           | 0.2           |             | 53.7  |
| 2010                          | 64.2       |               | 0.2           |             | 64.4  |
| 2011->                        | 48.9       | 0.5           | 0.3           |             | 49.8  |
| <b>Total 31 December 2005</b> | 192.6      | 58.4          | 5.1           | 7.0         | 263.1 |
| Total 31 December 2004        | 204.6      | 102.7         | 1.9           | 4.4         | 313.7 |

### Division of long-term loans by currency

|                  | 31 Dec. 2005 | 31 Dec. 2004 |
|------------------|--------------|--------------|
| EUR              | 98%          | 87%          |
| GBP              |              | 9%           |
| Other currencies | 2%           | 4%           |

### Debt structure

| MEUR                              | Used  | Remaining<br>2005 | Total   | Maturity<br>2006 | 2007 | 2008 | 2009 | 2010  | Later |
|-----------------------------------|-------|-------------------|---------|------------------|------|------|------|-------|-------|
| Committed revolving facilities    |       | 385.0             | 385.0   | 7.6              | 40.0 | 60.0 | 32.5 | 215.0 | 30.0  |
| Loans from financial institutions | 192.6 |                   | 192.6   | 5.9              | 12.6 | 12.6 | 48.3 | 64.2  | 48.9  |
| Commercial paper programme        | 132.6 | 467.4             | 600.0   | 600.0            |      |      |      |       |       |
| <b>Total</b>                      | 325.2 | 852.4             | 1,177.6 | 613.5            | 52.6 | 72.6 | 80.8 | 279.2 | 78.9  |

The average interest rate is 3.3% and the average interest-bearing period is 51 months. At the end of 2005 a one percentage point parallel increase/decrease in the interest curve would have generated a EUR 6.4 (6.2) million increase/decrease in the value of the net debt portfolio (including interest rate derivatives).

### 26. Other liabilities

| MEUR                               | 2005  | 2004  |
|------------------------------------|-------|-------|
| Project costs                      | 207.6 | 227.6 |
| Personnel costs                    | 77.6  | 90.0  |
| Interest and other financial items | 24.2  | 42.2  |
| Other accruals                     | 76.0  | 70.5  |
| Value added tax liabilities        | 3.0   | 2.1   |
| Other liabilities                  | 23.8  | 16.1  |
| <b>Total</b>                       | 412.2 | 448.4 |
| Non-current                        | 1.5   | 0.7   |
| Current                            | 410.7 | 447.7 |

**27. Financial instruments**

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

| MEUR  | 2005           | 2004           |
|---|----------------|----------------|
| <b>Nominal values of derivative financial instruments</b> |                |                |
| Interest rate swaps                                       | 180.0          | 260.0          |
| Currency forwards   |                |                |
| Transaction risk  | 958.7          | 761.4          |
| Translation risk  | 188.8          | 188.6          |
| Currency options, sold                                    | 39.2           |                |
| Currency options, bought                                  | 40.3           | 37.8           |
| <b>Total</b>  | <b>1,407.0</b> | <b>1,247.8</b> |
| <b>Fair values of derivative financial instruments</b>    |                |                |
| Interest rate swaps                                       | 0.5            | -1.4           |
| Currency forwards   |                |                |
| Transaction risk  | -9.7           | 26.9           |
| Translation risk  | -1.9           | 1.9            |
| Currency options, sold                                    | -0.2           |                |
| Currency options, bought                                  | -4.1           | 2.2            |
| <b>Total</b>  | <b>-15.4</b>   | <b>29.7</b>    |

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

**28. Collateral, contingent liabilities and other commitments**

| MEUR   | Balance sheet debt | 2005 Collateral | Balance sheet debt | 2004 Collateral |
|--|--------------------|-----------------|--------------------|-----------------|
| <b>Mortgages given as collateral for liabilities and commitments</b>         |                    |                 |                    |                 |
| Loans from credit institutions   | 2.9                | 4.0             | 3.4                | 4.5             |
| Pension loans  | 0.7                | 1.0             | 16.5               | 29.8            |
| Off-balance-sheet commitments  |                    | 10.0            |                    | 9.8             |
| <b>Total</b>   | <b>3.6</b>         | <b>15.0</b>     | <b>19.9</b>        | <b>44.1</b>     |
| <b>Chattel mortgages given as collateral for liabilities and commitments</b> |                    |                 |                    |                 |
| Loans from credit institutions   | 3.8                | 3.8             | 5.0                | 11.8            |
| Off-balance-sheet commitments  | 6.2                | 19.3            | 8.8                | 18.2            |
| <b>Total</b>   | <b>10.0</b>        | <b>23.1</b>     | <b>13.8</b>        | <b>30.0</b>     |
|  |                    |                 | <b>2005</b>        | <b>2004</b>     |
| <b>Guarantees and contingent liabilities on behalf of Group companies</b>    |                    |                 | 290.0              | 228.4           |
| <b>Nominal amounts of rents according to leasing contracts</b>               |                    |                 |                    |                 |
| Payable within one year  |                    |                 | 10.8               | 9.8             |
| Payable after one year   |                    |                 | 26.6               | 27.7            |
| <b>Total</b>   |                    |                 | <b>37.4</b>        | <b>37.5</b>     |

## 29. Related party disclosures

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

### Salaries and bonuses paid to management

| In thousands of euro  | 2005    | 2004    |
|---|---------|---------|
| President and CEO   |         |         |
| Salaries and other short-term benefits  | 437     | 363     |
| Bonuses   | 408     | 202     |
|   | 845     | 565     |
| Other members of the Board of Management  |         |         |
| Salaries and other short-term benefits  | 1,375   | 1,521   |
| Bonuses   | 1,327   | 763     |
|   | 2,702   | 2,284   |
| Board of Directors  |         |         |
| Antti Lagerroos, chairman   | 74      | 66      |
| Göran J. Ehrnrooth, deputy chairman   | 51      | 46      |
| Heikki Allonen, member  | 36      | 32      |
| Risto Hautamäki, member   | 36      | 33      |
| Jaakko Iloniemi, member   | 36      | 32      |
| Bertel Langenskiöld, member   | 34      | 33      |
| Matti Vuoria, member  | 34      |         |
|   | 299     | 243     |
| Salaries and bonuses paid to management, total  | 3,846   | 3,092   |
| The holdings of the President and CEO, and the members of the Board of Directors and Board of Management at the year end were as follows: |         |         |
| Options   | 329,000 | 808,000 |
| Shares  | 72,080  | 75,927  |

Altogether 493,000 shares may be subscribed under these options, representing 0.5% of all the shares and 0.2% of the votes. The shares owned by management represent 0.1% of all the shares and 0.1% of the votes.

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

The Group has no loan receivables from the executive management or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

The company has a EUR 21.2 million loan receivable from its associated company Oy Ovako Ab.

## 30. Exchange rates

|     | 31 Dec. 2005 | Closing rates<br>31 Dec. 2004 | 2005      | Average rates<br>2004 |
|-----|--------------|-------------------------------|-----------|-----------------------|
| USD | 1.17970      | 1.36210                       | 1.18857   | 1.24333               |
| GBP | 0.68530      | 0.70505                       | 0.67997   | 0.67858               |
| SEK | 9.38853      | 9.02063                       | 9.47177   | 9.12500               |
| NOK | 7.98499      | 8.23649                       | 7.87930   | 8.37190               |
| DKK | 7.46052      | 7.43882                       | 7.45857   | 7.43999               |
| CHF | 1.55510      | 1.54290                       | 1.54727   | 1.54412               |
| JPY | 138.90817    | 139.64531                     | 139.40667 | 134.39917             |
| SGD | 1.96280      | 2.22620                       | 2.00660   | 2.10080               |
| INR | 53.12085     | 59.21014                      | 53.79582  | 56.25850              |

31. Shares and securities

| Company name and location                      | Share % | Share of votes % | Currency | Bookvalue 000                        |                                       |
|--|---------|------------------|----------|--------------------------------------|---------------------------------------|
|  |         |                  |          | Directly owned by the parent company | Indirectly owned through a subsidiary |
| <b>Subsidiaries</b>                            |         |                  |          |                                      |                                       |
| Wärtsilä Technology                            | 100     | 100              | EUR      | 449,064                              |                                       |
| Wärtsilä Finland Oy                            | 100     | 100              | EUR      |                                      | 109,027                               |
| Wärtsilä Operations & Maintenance Ltd Oy       | 100     | 100              | EUR      |                                      | 84                                    |
| Wärtsilä Nederland B.V.                        | 100     | 100              | EUR      |                                      | 141,400                               |
| Ciserv Netherlands B.V.                        | 100     | 100              | EUR      |                                      | 956                                   |
| Ciserv Europort Netherlands B.V.               | 100     | 100              | EUR      |                                      | 3,045                                 |
| Wärtsilä Italia S.p.A.                         | 100     | 100              | EUR      |                                      | 83,447                                |
| Wärtsilä Switzerland Ltd.                      | 100     | 100              | EUR      |                                      | 6,950                                 |
| Wärtsilä France S.A.S.                         | 100     | 100              | EUR      |                                      | 20,000                                |
| Wärtsilä Lips Defence S.A.                     | 100     | 100              | EUR      |                                      | 3,097                                 |
| Wärtsilä Propulsion Netherlands B.V.           | 100     | 100              | EUR      |                                      | 151,989                               |
| Wärtsilä Propulsion Singapore Pte Ltd          | 100     | 100              | EUR      |                                      | 28                                    |
| Wärtsilä-CME Zhenjiang Propeller Co. Ltd       | 55      | 55               | EUR      |                                      | 3,826                                 |
| Wärtsilä Propulsion (Wuxi) Co. Ltd.            | 100     | 100              | EUR      |                                      | 3,391                                 |
| Wärtsilä Propulsion Spain S.A.                 | 100     | 100              | EUR      |                                      | 771                                   |
| Wärtsilä Danmark A/S                           | 100     | 100              | EUR      |                                      | 9,631                                 |
| Ciserv Denmark A/S                             | 100     | 100              | DKK      |                                      | 41,237                                |
| Wärtsilä Sweden AB                             | 100     | 100              | DKK      |                                      | 150,407                               |
| Ciserv AB                                      | 100     | 100              | SEK      |                                      | 41,318                                |
| Wärtsilä Norway A/S                            | 100     | 100              | EUR      |                                      | 10,079                                |
| Wärtsilä Propulsion Norway A/S                 | 100     | 100              | NOK      |                                      | 110,345                               |
| Wärtsilä Ibérica S.A.                          | 100     | 100              | EUR      |                                      | 3,875                                 |
| Wärtsilä Portugal Lda.                         | 100     | 100              | EUR      |                                      | 222                                   |
| Wärtsilä Deutschland GmbH                      | 100     | 100              | EUR      |                                      | 507                                   |
| Oü Ciserv BLRT Baltica                         | 51.7    | 51.7             | EUR      |                                      | 20                                    |
| Deep Sea Seals Ltd                             | 100     | 100              | EUR      |                                      | 81,745                                |
| Wärtsilä UK Ltd.                               | 100     | 100              | EUR      |                                      | 5,393                                 |
| Wärtsilä Ireland Ltd.                          | 100     | 100              | GBP      |                                      | 10                                    |
| Wärtsilä Polska Sp.z.o.o.                      | 100     | 100              | EUR      |                                      | 547                                   |
| Wärtsilä Greece S.A.                           | 100     | 100              | EUR      |                                      | 369                                   |
| Wärtsilä-Enpa A.S.                             | 51      | 51               | EUR      |                                      | 69                                    |
| Wärtsilä Arab Mediterranean Power Ltd          | 100     | 100              | EUR      |                                      | 37                                    |
| Wärtsilä Lips Inc.                             | 100     | 100              | USD      |                                      | 42,336                                |
| Wärtsilä North America, Inc.                   | 100     | 100              | USD      |                                      | 81,477                                |
| Ciserv USA Inc.                                | 100     | 100              | USD      |                                      | 800                                   |
| Wärtsilä Development & Financial Services Inc. | 100     | 100              | USD      |                                      | 10,216                                |
| Wärtsilä Canada Inc.                           | 100     | 100              | USD      |                                      | 2,439                                 |
| Ciserv CGL Industries Ltd.                     | 100     | 100              | CAD      |                                      | 512                                   |

## Shares and securities

| Company name and location                    | Share % | Share of votes % | Currency | Bookvalue '000                       |                                       |
|--|---------|------------------|----------|--------------------------------------|---------------------------------------|
|  |         |                  |          | Directly owned by the parent company | Indirectly owned through a subsidiary |
| Wärtsilä de Mexico SA                        | 100     | 100              | USD      |                                      | 9,709                                 |
| Wärtsilä Caribbean, Inc.                     | 100     | 100              | USD      |                                      |                                       |
| Wärtsilä Dominicana, Inc.                    | 100     | 100              | USD      |                                      | 20                                    |
| Wärtsilä Guatemala S.A.                      | 100     | 100              | USD      |                                      | 1                                     |
| Wartsila Operations, Inc.                    | 100     | 100              | USD      |                                      | 10                                    |
| Wärtsilä Latin America Ltd.                  | 100     | 100              | EUR      |                                      | 5,800                                 |
| Wärtsilä Chile Ltda.                         | 100     | 100              | USD      |                                      | 2,798                                 |
| Wärtsilä Ecuador S.A.                        | 100     | 100              | USD      |                                      | 1,991                                 |
| Wärtsilä do Brasil Ltda.                     | 100     | 100              | USD      |                                      | 8,807                                 |
| Wärtsilä Colombia S.A.                       | 100     | 100              | USD      |                                      | 35                                    |
| Wärtsilä Peru S.A.                           | 100     | 100              | USD      |                                      | 1,307                                 |
| Wärtsilä Argentina S.A.                      | 100     | 100              | USD      |                                      | 896                                   |
| Wärtsilä Venezuela, C.A.                     | 100     | 100              | USD      |                                      | 1,771                                 |
| Wärtsilä Bolivia S.A.                        | 100     | 100              | USD      |                                      |                                       |
| Wärtsilä Development & Financial Services Oy | 100     | 100              | EUR      |                                      | 18,800                                |
| Wärtsilä Singapore Pte Ltd.                  | 100     | 100              | EUR      |                                      | 3,151                                 |
| Ciserv Singapore Pte Ltd.                    | 100     | 100              | SGD      |                                      | 5,000                                 |
| Wärtsilä China Ltd.                          | 100     | 100              | EUR      |                                      | 9,010                                 |
| Ciserv China Ltd.                            | 100     | 100              | HKD      |                                      | 1                                     |
| Wärtsilä Korea Ltd.                          | 100     | 100              | EUR      |                                      | 894                                   |
| Ciserv Korea Ltd                             | 100     | 100              | EUR      |                                      | 37                                    |
| Wärtsilä Taiwan Ltd.                         | 96.7    | 96.7             | EUR      |                                      | 401                                   |
| Wärtsilä Philippines Inc.                    | 100     | 100              | EUR      |                                      | 645                                   |
| PT. Wärtsilä Indonesia                       | 100     | 100              | EUR      |                                      | 10,289                                |
| Wärtsilä Australia Pty Ltd.                  | 100     | 100              | EUR      |                                      | 1,689                                 |
| Wärtsilä India Ltd.                          | 89.6    | 89.6             | EUR      |                                      | 25,661                                |
| Wärtsilä Pakistan (Pvt.) Ltd.                | 100     | 100              | EUR      |                                      | 3,713                                 |
| Wärtsilä Bangladesh Ltd.                     | 100     | 100              | EUR      |                                      | 96                                    |
| Wärtsilä Power Contracting Saudi Arabia Ltd. | 60      | 60               | EUR      |                                      | 716                                   |
| Wärtsilä Gulf FZE                            | 100     | 100              | EUR      |                                      | 213                                   |
| Ciserv UAE LLC                               | 49      | 100              | AED      |                                      | 147                                   |
| Wärtsilä South Africa (Pty) Ltd.             | 100     | 100              | EUR      |                                      | 316                                   |
| Wärtsilä Eastern Africa Ltd                  | 100     | 100              | EUR      |                                      | 15                                    |
| Wärtsilä West Africa S.A.                    | 100     | 100              | EUR      |                                      | 15                                    |
| Wärtsilä Japan Company Ltd                   | 100     | 100              | EUR      |                                      | 2,261                                 |
| Japan Marine Technologies Ltd                | 99.6    | 99.6             | EUR      |                                      | 60,768                                |
| Chuwac Engineering Pte Ltd                   | 99.6    | 99.6             | JPY      |                                      | 39,113                                |
| Wärtsilä CIS Ltd.                            | 100     | 100              | EUR      |                                      | 858                                   |
| Vulcan Insurance Ltd.                        | 100     | 100              | EUR      | 336                                  |                                       |
| Wärtsilä Oyj Abp, other subsidiaries (4)     |         |                  |          | 16                                   |                                       |
| Wärtsilä Oyj Abp, real estate companies (4)  |         |                  |          | 301                                  |                                       |
| Total  |         |                  |          | 449,717                              |                                       |

| Shares and securities                                    |          |            |                        |          | Bookvalue<br>'000                             | Indirectly<br>owned<br>through a<br>subsidiary |
|--|----------|------------|------------------------|----------|---|--|
| Company name and location                                |          | Share<br>% | Share<br>of votes<br>% | Currency | Directly<br>owned by<br>the parent<br>company |  |
| <b>Associated companies</b>                              |          |            |                        |          |   |  |
| Oy Ovako Ab  | Finland  | 26.5       | 26.5                   | EUR      | 69,815  |  |
| AWEK Industrial Patents Ltd. Oy                          | Finland  | 25         | 25                     | EUR      |   | 17   |
| Wartsila Navim Diesel S.r.l.                             | Italy    | 40         | 40                     | EUR      |   | 13   |
| Repropel Sociedad de reparacao de helices LDA            | Portugal | 50         | 50                     | EUR      |   | 80   |
| Wärtsilä Corporation, others                             | Finland  |            |                        |          | 15  |  |
| Total  |          |            |                        |          | 69,829  |  |
| <b>Other companies</b>                                   |          |            |                        |          |   |  |
| Assa Abloy AB (publ.)                                    | Sweden   | 4.7        | 3.2                    | EUR      | 27,649  |  |
| Sampo Oyj  | Finland  | 0.3        |                        | EUR      | 3,798   |  |
| Sato Yhtymä Oyj  | Finland  |            |                        | EUR      | 1,853   |  |
| Wärtsilä Corporation, others (23)                        |          |            |                        |          | 3,197   |  |
| Total  |          |            |                        |          | 36,497  |  |
| <b>Wärtsilä Corporation, shares and securities totat</b> |          |            |                        |          | 556,043                                       |  |

### 32. Financial risks

#### Risk management principles

Risk management in Wärtsilä is a continuous process of analysing and managing all the opportunities, threats and risks faced by the company to achieve its goals and to ensure the company remains a going concern. The basis for risk management is the quality of Wärtsilä's operations and products, and the continuous, systematic loss-prevention work at all the levels of the Group on the principle that "everybody is responsible". In the long term this is the only way to reduce the total risk costs. The Wärtsilä Businesses are responsible for their operational risks and for mitigating and covering them. The risk management function is subordinate to Group Treasury, which reports to the CFO. It reviews the business risk profile, prepares the risk management policy, and develops global and local insurance schemes with insurance companies and brokers. The risk management policy is endorsed by the Board of Directors.

#### Financial risks

Wärtsilä has a centralized Group Treasury with two main objectives. It arranges adequate funding for the Group's underlying operations on competitive terms. The Treasury also identifies and evaluates the financial risks within the Group and implements the hedges for the Group companies. The objective is to hedge against unfavourable changes in the financial markets and to minimize the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and shareholders' equity. The Financial Risk Policy is approved by the Board of Directors. The Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

#### Foreign exchange risk

Foreign exchange exposures are monitored at the Business level and then netted and hedged at Group level. All fixed sales and purchase contracts are hedged on a net basis. The estimated future commercial exposures are evaluated by the Businesses and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS is applied to most of the hedges of these exposures. The hedges cover such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its balance sheet position, which includes receivables and payables denominated in foreign currencies.

Some 59% of sales and 65% of operating costs in 2005 were denominated in euros. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: USD, GBP, JPY and KRW. The instruments, and their nominal values, used to hedge the Group's foreign exchange exposures are listed in the note 27.

| Currency distribution 2005 | Net sales | Operating cost |
|----------------------------|-----------|----------------|
| Euro zone                  | 59%       | 65%            |
| USD                        | 18%       | 11%            |
| NOK                        | 2%        | 3%             |
| CHF                        | 2%        | 4%             |
| SEK                        | 2%        | 1%             |
| Other EU                   | 3%        | 5%             |
| Other                      | 14%       | 10%            |
|                            | 100%      | 100%           |

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

Since Wärtsilä has subsidiaries outside the euro zone, the Group's shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2005 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 237 million, of which EUR 187 million was hedged.

#### Interest rate risk

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

Interest-bearing loan capital at the end of 2005 totalled EUR 403 (320) million. The average interest rate was 3.0% (3.4%) and the average re-fixing time 7 (12) months. At the end of 2005 a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 6.4 million increase/decrease in the value of the net debt portfolio inclusive derivatives. Wärtsilä spreads its interest rate risk exposure by taking both fixed and floating rate loans. The share of floating rate loans as a proportion of the total debt can vary between 30–70%. At the end of 2005 the floating rate portion of total loans was 62% after adjustment for interest rate derivatives.

#### Liquidity and refinancing risk

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

The existing funding programmes include:

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

The average maturity of the long-term loans is 51 months and the average maturity of the confirmed credit lines is 56 months.

Wärtsilä Group's liquidity is good. Wärtsilä had cash reserves totalling EUR 119.6 million at the year end as well as EUR 385 million in non-utilized committed credit facilities and substantial Commercial Paper programmes. Wärtsilä minimizes its refinancing risk by having a balanced and sufficiently long loan portfolio. Information on the Group's loans is given in Note 25.

#### Credit risk

The responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group companies. Major trade and project finance credit risks are minimized by transferring risks to banks, insurance companies and export credit organizations. The company's long-term suppliers' credits granted mainly into emerging markets totalled EUR 3.8 million at the end of 2005. 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 limits for the counterparties and by making agreements only with the most reputable domestic and international banks and financial institutions. The Group companies deposit all their liquid financial assets with the centralized treasury (Wärtsilä Finance) if local laws and control bank regulations allow it. The Group's funds are placed in instruments with sufficient liquidity (short-term bank deposits or Finnish Commercial Papers) and rating (at least single-A rated instruments or other instruments approved by the Group CFO). These placements are constantly monitored by Wärtsilä Finance and Wärtsilä does not expect any defaults from the placements.

#### Equity price risk

Wärtsilä has investments in publicly quoted shares (Note 31). The market value of these shares at the end of 2005 was EUR 258 million. Wärtsilä holds 26.5% of the shares in Oy Ovako Ab (Note 13). The company also has equity investments totalling EUR 33 million in power plant companies, most of which are located in developing countries and performing well according to expectations.

**33. Adoption of the International Reporting Standards (IFRS)**

Wärtsilä Corporation has adopted the International Financial Reporting Standards (IFRS) in the preparation and presentation of its interim and annual financial statements as of 1 January 2005. Described below are the main impacts of the transition to IFRS on the financial information for 2004, which was originally reported according to the Finnish Accounting Standards (FAS) set for public listed companies in Finland.

Under the transition provisions for IAS 32 and IAS 39 covering the treatment of financial instruments, no comparative data need be prepared according to these standards for 2004. Instead, IAS 32 and IAS 39 have been applied from 1 January 2005, when the translation adjustments were entered directly under shareholders' equity.

The main changes arising from the adoption of IFRS are explained below.

**INCOME STATEMENT**

| <b>MEUR</b>                                   | <b>FAS<br/>2004</b> | <b>IFRS<br/>adjustment</b> | <b>IFRS<br/>2004</b> |
|---|---------------------|----------------------------|----------------------|
| Net sales                                     | 2,478.2             |                            | 2,478.2              |
| Other operating income                        | 135.2               | -108.3                     | 26.9                 |
| Expenses                                      | -2,289.5            | -40.6                      | -2,330.1             |
| Depreciations and write-downs                 | -58.1               | -5.0                       | -63.0                |
| Operating income before goodwill amortization | 265.8               | -153.8                     | 112.0                |
| Goodwill amortization                         | -27.4               | 27.4                       |                      |
| Operating income                              | 238.4               | -126.4                     | 112.0                |
| Share of income from associates               | 1.4                 |                            | 1.4                  |
| Net income from assets available for sale     |                     | 107.7                      | 107.7                |
| Financial income and expenses                 | -3.3                | -0.5                       | -3.7                 |
| Income before taxes                           | 236.5               | -19.1                      | 217.3                |
| Income taxes                                  | -74.9               | -11.1                      | -86.1                |
| Minority interests                            | -1.3                |                            | -1.3                 |
| Net income                                    | 160.3               | -30.3                      | 130.0                |
| Earnings per share                            | 1.75                |                            | 1.42                 |
| Diluted earnings per share                    | 1.75                |                            | 1.42                 |

**OPERATING INCOME BY SEGMENT**

| <b>MEUR</b>                    | <b>FAS<br/>2004</b> | <b>IFRS<br/>adjustment</b> | <b>IFRS<br/>2004</b> |
|--------------------------------|---------------------|----------------------------|----------------------|
| Power Businesses               | 137.5               | -49.8                      | 87.7                 |
| Imatra Steel                   | 20.5                | 3.8                        | 24.3                 |
| Investments available for sale | 107.7               | -107.7                     |                      |
| Total                          | 265.8               | -153.8                     | 112.0                |



**BALANCE SHEET**

| <b>MEUR</b>                                | <b>FAS</b><br><b>31 Dec. 2003</b> | <b>IFRS</b><br><b>adjustment</b> | <b>IFRS</b><br><b>31 Dec. 2003</b> |
|--|-----------------------------------|----------------------------------|------------------------------------|
| Assets                                     |                                   |                                  |                                    |
| Intangible assets                          | 37.3                              | 19.0                             | 56.3                               |
| Goodwill                                   | 354.0                             | 4.6                              | 358.6                              |
| Property, plant and equipment              | 389.3                             | -18.9                            | 370.5                              |
| Investment properties                      |                                   | 20.7                             | 20.7                               |
| Equity in associates                       | 2.7                               |                                  | 2.7                                |
| Shares available for sales                 | 96.8                              | -0.3                             | 96.5                               |
| Interest-bearing investments               | 11.5                              |                                  | 11.5                               |
| Other long-term receivables                | 70.3                              | 34.5                             | 104.7                              |
| Inventories                                | 555.5                             | 0.2                              | 555.7                              |
| Interest-bearing receivables               | 9.7                               | 0.0                              | 9.6                                |
| Other receivables                          | 705.8                             | 6.4                              | 712.2                              |
| Cash and cash equivalents                  | 150.0                             | 1.5                              | 151.5                              |
| Total assets                               | 2,382.9                           | 67.5                             | 2,450.4                            |
| Shareholders' equity and liabilities       |                                   |                                  |                                    |
| Share capital                              | 208.8                             |                                  | 208.8                              |
| Other shareholders' equity                 | 568.3                             | 69.0                             | 637.3                              |
| Minority interests                         | 6.1                               |                                  | 6.1                                |
| Convertible subordinated debentures        | 27.5                              |                                  | 27.5                               |
| Long-term interest-bearing debt            | 288.2                             | 0.5                              | 288.7                              |
| Other long-term liabilities                | 101.1                             | 42.3                             | 143.4                              |
| Interest-bearing current debt              | 208.6                             | 10.5                             | 219.1                              |
| Other current liabilities                  | 974.2                             | -54.7                            | 919.5                              |
| Total shareholders' equity and liabilities | 2,382.9                           | 67.5                             | 2,450.4                            |

**BALANCE SHEET**

| <b>MEUR</b>                                | <b>FAS</b><br><b>31 Dec. 2004</b> | <b>IFRS</b><br><b>adjustment</b> | <b>IFRS</b><br><b>31 Dec. 2004</b> |
|--|-----------------------------------|----------------------------------|------------------------------------|
| Assets                                     |                                   |                                  |                                    |
| Intangible assets                          | 56.8                              | 19.4                             | 76.2                               |
| Goodwill                                   | 328.3                             | 31.3                             | 359.6                              |
| Property, plant and equipment              | 355.7                             | -13.0                            | 342.8                              |
| Investment properties                      |                                   | 14.2                             | 14.2                               |
| Equity in associates                       | 2.8                               |                                  | 2.8                                |
| Shares available for sales                 | 68.7                              | -0.3                             | 68.4                               |
| Interest-bearing investments               | 6.9                               | 0.0                              | 6.9                                |
| Other long-term receivables                | 59.0                              | 22.2                             | 81.2                               |
| Inventories                                | 564.5                             | 0.6                              | 565.1                              |
| Interest-bearing receivables               | 1.9                               | 0.0                              | 1.9                                |
| Other receivables                          | 713.5                             | -4.8                             | 708.7                              |
| Cash and cash equivalents                  | 168.5                             | 1.1                              | 169.6                              |
| Total assets                               | 2,326.7                           | 70.7                             | 2,397.3                            |
| Shareholders' equity and liabilities       |                                   |                                  |                                    |
| Share capital                              | 323.9                             |                                  | 323.9                              |
| Other shareholders' equity                 | 529.0                             | 39.8                             | 568.8                              |
| Minority interests                         | 7.8                               |                                  | 7.8                                |
| Long-term interest-bearing debt            | 271.0                             | 0.3                              | 271.2                              |
| Other long-term liabilities                | 87.6                              | 21.4                             | 109.0                              |
| Interest-bearing current debt              | 48.5                              | 0.2                              | 48.8                               |
| Other current liabilities                  | 1,058.8                           | 9.0                              | 1,067.8                            |
| Total shareholders' equity and liabilities | 2,326.7                           | 70.7                             | 2,397.3                            |

## ANALYSIS OF NET INCOME ADJUSTMENTS

| MEUR                                    | 2004  |
|---|-------|
| Net income under FAS                    | 160.3 |
| IFRS adjustments                        |       |
| IFRS 3 Business combinations            | 27.4  |
| IAS 12 Income Taxes                     | -11.6 |
| IAS 19 Employee Benefits                | 20.4  |
| IAS 20 Accounting for Government Grants | 1.4   |
| IAS 37 Provisions                       | -67.2 |
| IAS 38 Intangible assets                | -0.1  |
| Other adjustments                       | -0.6  |
| Total IFRS adjustments                  | -30.3 |
| Net income under IFRS                   | 130.0 |

## CHANGES IN SHAREHOLDERS' EQUITY

| MEUR                                    | 31 Dec. 2003 | 31 Dec. 2004 |
|---|--------------|--------------|
| Shareholders' equity under FAS          | 777.1        | 853.0        |
| Effects of adopting IFRS                |              |              |
| IFRS 3 Business combinations            |              | 27.4         |
| IAS 12 Income taxes                     | 28.4         | 16.8         |
| IAS 19 Employee benefits                | -40.7        | -20.3        |
| IAS 20 Accounting for Government Grants | -10.0        | -8.7         |
| IAS 36 Impairment of Assets             | -3.4         | -3.4         |
| IAS 37 Provisions                       | 67.1         | -0.1         |
| IAS 38 Intangible Assets                | 27.0         | 26.9         |
| Other adjustments                       | 0.6          | 1.1          |
| Total IFRS adjustments                  | 69.0         | 39.8         |
| Shareholders' equity under IFRS         | 846.1        | 892.7        |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| MEUR  | Share capital | Share premium | Translation differences | Retained earnings | Total  |
|---|---------------|---------------|-------------------------|-------------------|--------|
| Shareholders' equity on 31 December 2003 (FAS)  | 208.8         | 117.9         | -19.3                   | 469.8             | 777.1  |
| IFRS adjustments                                |               |               | 19.3                    | 49.7              | 69.0   |
| Shareholders' equity on 1 January 2004 (IFRS)   | 208.8         | 117.9         | 0.0                     | 519.5             | 846.1  |
| Conversion of subordinated debentures           | 7.2           | 17.5          |                         |                   | 24.6   |
| Bonus issue                                     | 108.0         | -108.0        |                         |                   | 0.0    |
| Translation differences                         |               |               | -1.0                    |                   | -1.0   |
| Dividends paid                                  |               |               |                         | -106.4            | -106.4 |
| Other changes                                   |               |               |                         | -0.6              | -0.6   |
| Net income for the period                       |               |               |                         | 130.0             | 130.0  |
| Shareholders' equity on 31 December 2004 (IFRS) | 323.9         | 27.3          | -1.0                    | 542.5             | 892.7  |

## KEY FIGURES 2004

|                                     | FAS  | IFRS |
|-------------------------------------|------|------|
| Earnings per share, EUR             | 1.75 | 1.42 |
| Book value of equity per share, EUR | 9.22 | 9.65 |
| Solvency %                          | 40.3 | 40.8 |
| Net debt to equity                  | 0.18 | 0.17 |

### **Employee benefits**

Under FAS pension obligations were reported in accordance with local legislation and practice in each operating country. The adoption of IFRS increases the pension obligation arising from defined benefit plans by EUR 32.7 million in the opening balance sheet at 1 January 2004. Most of this increase is due to the need to enter the disability pension obligation under the Finnish pension system (Employees' Pensions Act, TEL) in the opening balance sheet at 1 January 2004. Changes in the system's calculation principles, due to come into force on 1 January 2006, will mean that a one-time item of EUR 27.3 million arising from the disability pension is entered in the fourth-quarter interim accounts for 2004. Under the new calculation principles the disability part of TEL pensions will be treated as a defined contribution plan in the IFRS statements.

The other employee benefit obligations on the transition date total EUR 8.0 million. These apply mainly to compensation for long-term employment in the company. Under previous local practice, these obligations were not included in provisions because they were previously treated as defined contribution plans.

### **Interest-bearing loans**

The EUR 10.0 million conditional state development credit granted in the Netherlands is treated under IFRS as an interest-bearing loan. Under FAS it was entered as a contingent liability.

### **Goodwill**

On the transition date 1 January 2004 goodwill totalling EUR 362.0 million was reviewed for each cash-generating unit to determine any need for write-downs, based on discounted future cash flows. The review resulted in a EUR 3.4 million write-down on the Biopower business. Biopower was part of the Power Plants business and under FAS valuation principles no write-down was considered necessary in the 2003 financial statements.

Goodwill totalling EUR 8.1 million arising from the acquisition of assets has been transferred from intangible assets to goodwill. Goodwill has not been amortized from the transition date. Amortization of goodwill under FAS in 2004, EUR 27.4 million, is entered in the income statement.

### **Restructuring provisions**

A EUR 130 million restructuring provision and write-down was entered in the FAS financial statements for 2003 based on a restructuring programme approved by the Board of Directors in December 2003. Negotiations with personnel were completed during the first quarter of 2004 and it was only then that the IFRS criteria for provisions were considered to have been met. Accordingly, EUR 66.0 million of the restructuring provision at the transition date, 1 January 2004, has been reversed. Of this amount, EUR 63.8 million has been entered as a provision and one-time item in the first-quarter accounts for 2004. The provision was increased by EUR 2.1 million in the fourth quarter after completion of the restructuring programme in the Netherlands.

### **Capitalization of R&D costs**

The research and development costs of new products and technologies have been capitalized, once the IAS capitalization criteria have been met, from the year in which it has been possible to establish their technical feasibility and future economic benefits. Development costs totalling EUR 27.0 million between 1999 and 2003 were capitalized on 1 January 2004 after deductions for planned depreciation.

### **Assets available for sale**

Other shares are classified as assets available for sale. Under the transition exemptions permitted by the IAS 32 and IAS 39 standards on financial instruments, comparative IFRS figures for financial instruments are not calculated since IAS 39 only took effect on 1 January 2005. Hence the IFRS values of Wärtsilä's shares shown here correspond with the figures in the original financial statements. Application of IAS 39 to Wärtsilä's shares available for sale would have increased the opening balance sheet by EUR 146.9 million.

### **Valuation of inventories**

Further clarification of the valuation principles has been provided. The main impact of the change is to systematically include freight and cash discounts in inventories.

### **Tangible fixed assets**

The value of tangible fixed assets has increased as a result of more systematic finance leasing capitalization and the consolidation of small companies. Under FAS these small companies were not considered significant.

Properties totalling EUR 20.7 million and not used by the Group have been transferred to investment properties. The fair value for the investment properties is not available.

### **Deferred taxes**

Deferred taxes have been entered under IFRS adjustments in the opening balance sheet to the extent that they have created taxable or tax-deductible temporary differences between the closing of the accounts and the taxation date. Deferred tax assets on confirmed losses have been adjusted if it is sufficiently probable that the losses can be used in the future. Deferred tax adjustments at the transition date totalled EUR 28.4 million.

## PARENT COMPANY FINANCIAL STATEMENTS

### Parent Company Income Statement (FAS)

| MEUR   | Note | 2005  | 2004  |
|--|------|-------|-------|
| <b>Net sales</b>                               | 1    | 1.6   | 8.9   |
| Other operating income                         | 2    | 51.2  | 160.0 |
| Personnel expenses                             | 3    | -28.8 | -22.4 |
| Depreciation and write-downs                   | 4    | -9.6  | -9.2  |
| Other operating expenses                       |      | -68.9 | -59.8 |
| <b>Operating result</b>                        |      | -54.6 | 77.4  |
| Financial income and expenses                  | 5    |       |       |
| Income from financial assets                   |      | 6.5   | 10.4  |
| Interest income and other financial income     |      | 21.5  | 22.3  |
| Exchange gains and losses                      |      | -13.2 | 8.4   |
| Interest expenses and other financial expenses |      | -25.8 | -14.1 |
|  |      | -10.9 | 27.0  |
| <b>Result before extraordinary items</b>       |      | -65.5 | 104.4 |
| Extraordinary items                            | 6    |       |       |
| Group contribution                             |      | 73.8  | -13.3 |
| <b>Result before appropriations and taxes</b>  |      | 8.3   | 91.2  |
| Appropriations                                 |      |       |       |
| Change in depreciation difference              |      | 0.4   | 1.9   |
| <b>Result before taxes</b>                     |      | 8.7   | 93.0  |
| <b>Income taxes</b>                            | 7    | -1.4  | -27.2 |
| <b>Result for the financial period</b>         |      | 7.3   | 65.8  |

### Parent Company Balance Sheet (FAS)

| ASSETS   | Note | 31 Dec. 2005 | 31 Dec. 2004 |
|--|------|--------------|--------------|
| <b>MEUR</b>  |      |              |              |
| <b>Fixed assets</b>                                      | 8    |              |              |
| <b>Intangible assets</b>                                 |      |              |              |
| Intangible rights  |      | 0.4          | 0.4          |
| Other long-term expenditure                              |      | 27.7         | 25.3         |
| Construction in progress                                 |      | 7.9          | 8.0          |
|  |      | 36.0         | 33.7         |
| <b>Tangible assets</b>                                   |      |              |              |
| Land and water   |      | 9.9          | 14.3         |
| Buildings and structures                                 |      | 1.2          | 5.2          |
| Machinery and equipment                                  |      | 1.8          | 2.6          |
| Other tangible assets                                    |      | 0.7          | 0.8          |
| Construction in progress                                 |      | 2.3          | 0.2          |
|  |      | 16.0         | 23.1         |
| <b>Financial assets</b>                                  |      |              |              |
| Shares in Group companies                                |      | 449.7        | 528.5        |
| Long-term loan receivables from Group companies          |      | 3.1          | 3.6          |
| Shares in associated companies                           |      | 69.8         | 0.0          |
| Receivables from associated companies                    |      | 1.5          | 2.2          |
| Other shares and securities                              |      | 36.5         | 36.3         |
| Other receivables  |      | 0.0          | 0.0          |
|  |      | 560.7        | 570.5        |
| <b>Fixed assets and other long-term financial assets</b> |      | 612.7        | 627.3        |
| <b>Long-term receivables</b>                             | 9    |              |              |
| Receivables from Group companies                         |      | 20.5         | 12.9         |
| Receivables from associated companies                    |      | 21.2         |              |
| Loan receivables   |      | 2.0          | 2.6          |
|  |      | 43.7         | 15.5         |
| <b>Short-term receivables</b>                            | 10   |              |              |
| Trade receivables  |      | 0.2          | 8.8          |
| Receivables from Group companies                         |      | 676.5        | 661.0        |
| Receivables from associated companies                    |      | 0.7          | 0.1          |
| Loan receivables   |      | 0.4          | 0.4          |
| Other receivables  |      | 9.7          | 5.4          |
| Prepaid expenses and accrued income                      | 11   | 10.3         | 9.2          |
|  |      | 697.8        | 684.9        |
| <b>Financial assets</b>                                  |      |              |              |
| Other securities   |      | 4.2          | 3.7          |
|  |      | 4.2          | 3.7          |
| <b>Cash and bank balances</b>                            |      | 34.3         | 89.7         |
| <b>Total current assets</b>                              |      | 780.1        | 793.8        |
| <b>Assets</b>  |      | 1,392.8      | 1,421.1      |

**Parent Company Balance Sheet (FAS)**
**Shareholders' equity and liabilities**

| MEUR  | Note | 31 Dec. 2005   | 31 Dec. 2004   |
|---|------|----------------|----------------|
| <b>Shareholders' equity</b>                 | 12   |                |                |
| Share capital                               |      | 329.4          | 323.9          |
| Share premium reserve                       |      | 44.0           | 27.3           |
| Retained earnings                           |      | 444.6          | 464.9          |
| Result for the financial year               |      | 7.3            | 65.8           |
| <b>Total shareholders' equity</b>           |      | <b>825.3</b>   | <b>882.0</b>   |
| <b>Accumulated appropriations</b>           |      |                |                |
| Depreciation difference                     |      | 2.5            | 2.9            |
| <b>Provisions</b>                           | 13   | 2.5            | 2.5            |
| <b>Liabilities</b>                          |      |                |                |
| <b>Long-term</b>                            | 14   |                |                |
| Loans from credit institutions              |      | 169.0          | 148.4          |
| Pension loans                               |      | 29.0           | 53.7           |
|   |      | 198.0          | 202.1          |
| <b>Current</b>                              | 16   |                |                |
| Loans from credit institutions              |      | 132.6          |                |
| Pension loans                               |      | 24.7           | 28.4           |
| Trade payables                              |      | 2.9            | 0.7            |
| Liabilities to Group companies              |      | 172.4          | 264.6          |
| Liabilities to associated companies         |      | 0.0            |                |
| Other current liabilities                   |      | 1.5            | 2.7            |
| Accrued expenses and deferred income        | 15   | 30.3           | 35.2           |
|   |      | 364.5          | 331.6          |
| <b>Total liabilities</b>                    |      | <b>562.4</b>   | <b>533.7</b>   |
| <b>Shareholders' equity and liabilities</b> |      | <b>1,392.8</b> | <b>1,421.1</b> |

**Parent Company Cash Flow Statement (FAS)**

| MEUR  | 2005         | 2004         |
|---|--------------|--------------|
| <b>Cash flow from operating activities:</b>                                 |              |              |
| Operating result  | -54.6        | 77.4         |
| Adjustments for:  |              |              |
| Depreciation and write-downs  | 9.6          | 9.2          |
| Selling profit and loss of fixed assets                                     | -11.9        | -126.9       |
| Other changes   | -4.1         |              |
| Cash flow before changes in working capital                                 | -60.9        | -40.3        |
| Changes in working capital  |              |              |
| Current assets, non-interest-bearing, increase (-) / decrease (+)           | 6.6          | 8.8          |
| Current liabilities, non-interest-bearing, increase (+) / decrease (-)      | 16.9         | 1.8          |
|   | 23.5         | 10.6         |
| <b>Cash flow from operating activities before financial items and taxes</b> | <b>-37.5</b> | <b>-29.6</b> |
| Interest and other financial expenses                                       | -40.3        | -26.5        |
| Dividends received from operating activities                                | 0.1          | 2.7          |
| Interest and other financial income from operating activities               | 35.6         | 40.9         |
| Income taxes  | -23.6        | -6.0         |
|   | -28.2        | 11.1         |
| <b>Cash flow from operating activities (A)</b>                              | <b>-65.6</b> | <b>-18.6</b> |
| Cash flow from investing activities:  |              |              |
| Investments in shares   | -24.0        | -0.3         |
| Investments in other tangible and intangible assets                         | -12.9        | -10.7        |
| Proceeds from sale of shares  | 1.2          | 134.8        |
| Proceeds from sale of tangible and intangible assets                        | 16.6         | 6.8          |
| Loan receivables, increase (-), decrease (+)                                | 1.1          | 3.7          |
| Dividends received from investments   | 6.4          | 7.7          |
| Paid income taxes on sales of shares  | -0.1         | -7.8         |
| <b>Cash flow from investing activities (B)</b>                              | <b>-11.8</b> | <b>134.3</b> |
| <b>Cash flow after investing activities</b>                                 | <b>-77.4</b> | <b>115.7</b> |
| Cash flow from financing activities:  |              |              |
| Issuance of share capital   | 22.1         | 24.6         |
| Loans receivable, increase (-) / decrease (+)                               | -50.7        | 105.1        |
| Current loans, increase (+) / decrease (-)                                  | 86.5         | -112.8       |
| New long-term loans   | 49.0         | 30.0         |
| Amortization and other changes to long-term loans                           | -58.3        | -26.8        |
| Group contributions   | 57.3         | 16.2         |
| Paid dividends  | -83.3        | -106.4       |
| Changes in convertible subordinate debentures                               |              | -27.5        |
| Other changes   |              | -0.4         |
| <b>Cash flow from financing activities (C)</b>                              | <b>22.6</b>  | <b>-98.0</b> |
| <b>Change in liquid funds (A)+(B)+(C), increase (+) / decrease (-)</b>      | <b>-54.8</b> | <b>17.7</b>  |
| Liquid funds at beginning of period   | 93.3         | 75.6         |
| Liquid funds at end of period   | 38.5         | 93.3         |

### Accounting principles

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

The accounting principles are unchanged compared to the previous year.

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

### Transactions denominated in foreign currencies

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

### Research and development costs

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

### Fixed assets and depreciation

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

Depreciation is based on the following useful lives:

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

### Leasing

Operating lease payments are treated as rentals.

### Extraordinary income and expenses

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

### Provisions

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

### Income taxes

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

### Dividends

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

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

### Notes to the Financial Statements (FAS)

| MEUR   | 2005 | 2004  |
|--|------|-------|
| <b>1. Net sales by country</b>   |      |       |
| Finland  | 1.6  | 8.9   |
| <b>2. Other operating income</b>   |      |       |
| Rental income  | 1.8  | 1.9   |
| Profit on sales of fixed assets  | 11.9 | 127.1 |
| Other operating income   | 37.4 | 30.9  |
| Total  | 51.2 | 160.0 |
| <b>3. Personnel expenses</b>   |      |       |
| Wages and salaries   | 19.2 | 14.4  |
| Pension costs  | 7.6  | 6.3   |
| Other compulsory personnel costs   | 2.0  | 1.8   |
| Total  | 28.8 | 22.4  |
| Salaries and emoluments to senior management,<br>the President and CEO and members of the Board of Directors           | 1.0  | 0.9   |
| The CEO and the members of the Board of Management have the right to retire at the age<br>of 60 years.                 |      |       |
| The Company's Board of Directors decides the remunerations of the President and CEO and<br>his immediate subordinates. |      |       |
| Personnel on average   | 251  | 219   |
| <b>4. Depreciation and write-downs</b>   |      |       |
| <b>Depreciation according to plan</b>  |      |       |
| Intangible assets  | 0.1  | 0.1   |
| Other long-term expenditure  | 7.9  | 7.4   |
| Buildings and structures   | 0.5  | 0.6   |
| Machinery and equipment  | 1.2  | 1.2   |
| Other tangible assets  | 0.0  | 0.0   |
| Total depreciation according to plan   | 9.6  | 9.2   |
| Total book depreciation  | 9.3  | 7.3   |
| Depreciation difference  | 0.4  | 1.9   |
| Adjustment of depreciation difference on sold fixed assets   | 0.7  | 1.9   |
| <b>Write-down of fixed assets</b>  |      |       |
| Depreciation difference on 1 January   | 2.9  | 4.8   |
| Change in the depreciation difference  | -0.4 | -1.9  |
| Depreciation difference on 31 December   | 2.5  | 2.9   |

MEUR 2005 2004

### 5. Financial income and expenses

|                                      |              |              |
|--------------------------------------|--------------|--------------|
| Dividend income                      |              |              |
| from Group companies                 | 0.1          | 2.7          |
| from other companies                 | 6.4          | 7.7          |
| <b>Total</b>                         | <b>6.5</b>   | <b>10.4</b>  |
| Other interest income                |              |              |
| from Group companies                 | 19.8         | 19.4         |
| from other companies                 | 1.1          | 2.1          |
| <b>Total</b>                         | <b>20.9</b>  | <b>21.5</b>  |
| Other financial income               |              |              |
| from Group companies                 | 0.6          | 0.8          |
| from other companies                 | 4.0          |              |
| <b>Total</b>                         | <b>4.6</b>   | <b>0.8</b>   |
| Exchange gains and losses            | -13.2        | 8.4          |
| Interest expenses                    |              |              |
| to Group companies                   | -0.8         | -3.7         |
| to other companies                   | -11.1        | -8.2         |
| <b>Total</b>                         | <b>-11.9</b> | <b>-12.0</b> |
| Other financial expenses             |              |              |
| to other companies                   | -17.8        | -2.2         |
| <b>Total</b>                         | <b>-17.8</b> | <b>-2.2</b>  |
| Financial income and expenses, total | -10.9        | 27.0         |

### 6. Extraordinary income and expenses

|                     |      |       |
|---------------------|------|-------|
| Group contributions | 73.8 | -13.3 |
|---------------------|------|-------|

### 7. Income taxes

|                                     |             |              |
|-------------------------------------|-------------|--------------|
| Income taxes on operations          |             |              |
| for the financial year              | -1.4        | -27.2        |
| for prior years                     | 0.0         | 0.0          |
| <b>Total</b>                        | <b>-1.4</b> | <b>-27.2</b> |
| Income taxes on extraordinary items | 19.2        | -3.9         |

### 8. Fixed assets

| Intangible assets                                   | Intangible<br>rights | Other<br>long-term<br>expenditure | Construction<br>in progress | Total 2005   | Total 2004   |
|---|----------------------|-----------------------------------|-----------------------------|--------------|--------------|
| <b>MEUR</b>   |                      |                                   |                             |              |              |
| <b>Acquisition cost at 1 January</b>                | 0.9                  | 55.8                              | 8.0                         | 64.2         | 57.2         |
| Additions   |                      | 4.2                               | 6.1                         | 10.3         | 8.5          |
| Disposals   |                      |                                   |                             |              | -1.5         |
| Intra-balance sheet transfer                        |                      | 6.2                               | -6.2                        |              |              |
| <b>Acquisition cost at 31 December</b>              | <b>0.9</b>           | <b>66.2</b>                       | <b>7.9</b>                  | <b>74.5</b>  | <b>64.2</b>  |
| Accumulated depreciation at 1 January               | -0.5                 | -30.5                             |                             | -30.5        | -23.5        |
| Accumulated depreciation on disposals and transfers |                      |                                   |                             |              | 0.5          |
| Depreciation during the financial year              | -0.1                 | -7.9                              |                             | -8.0         | -7.4         |
| <b>Accumulated depreciation at 31 December</b>      | <b>-0.5</b>          | <b>-38.4</b>                      |                             | <b>-38.5</b> | <b>-30.5</b> |
| <b>Book value at 31 December 2005</b>               | <b>0.4</b>           | <b>27.7</b>                       | <b>7.9</b>                  | <b>36.0</b>  |              |
| <b>Book value at 31 December 2004</b>               | <b>0.4</b>           | <b>25.3</b>                       | <b>8.0</b>                  |              | <b>33.7</b>  |



| Tangible assets                                     | Land and water | Buildings and structures | Machinery and equipment | Construction in progress | Other tangible assets | Total 2005   | Total 2004   |
|---|----------------|--------------------------|-------------------------|--------------------------|-----------------------|--------------|--------------|
| <b>MEUR</b>   |                |                          |                         |                          |                       |              |              |
| Acquisition cost at 1 January                       | 14.3           | 22.7                     | 11.9                    | 0.2                      | 1.6                   | 50.7         | 56.3         |
| Additions   |                | 0.0                      | 0.5                     | 2.2                      |                       | 2.6          | 2.2          |
| Disposals   | -4.4           | -10.6                    | -0.8                    |                          | 0.0                   | -15.9        | -7.8         |
| <b>Acquisition cost at 31 December</b>              | <b>9.9</b>     | <b>12.2</b>              | <b>11.5</b>             | <b>2.3</b>               | <b>1.6</b>            | <b>37.4</b>  | <b>50.7</b>  |
| Accumulated depreciation at 1 January               |                | -17.5                    | -9.3                    |                          | -0.8                  | -27.7        | -29.3        |
| Accumulated depreciation on disposals and transfers |                | 7.1                      | 0.8                     |                          |                       | 7.9          | 3.4          |
| Depreciation during the financial year              |                | -0.5                     | -1.2                    |                          | 0.0                   | -1.7         | -1.8         |
| <b>Accumulated depreciation at 31 December</b>      |                | <b>-10.9</b>             | <b>-9.7</b>             |                          | <b>-0.8</b>           | <b>-21.5</b> | <b>-27.7</b> |
| <b>Book value at 31 December 2005</b>               | <b>9.9</b>     | <b>1.2</b>               | <b>1.8</b>              | <b>2.3</b>               | <b>0.7</b>            | <b>16.0</b>  |              |
| <b>Book value at 31 December 2004</b>               | <b>14.3</b>    | <b>5.2</b>               | <b>2.6</b>              | <b>0.2</b>               | <b>0.8</b>            |              | <b>23.1</b>  |

| Shares and securities                  | Shares in Group companies | Receivables from Group companies | Shares in associated companies | Receivables from associated companies | Shares in other companies | Receivables from other companies | Total 2005   | Total 2004   |
|--|---------------------------|----------------------------------|--------------------------------|---------------------------------------|---------------------------|----------------------------------|--------------|--------------|
| Acquisition cost at 1 January          | 528.5                     | 3.6                              | 0.0                            | 2.2                                   | 36.3                      | 0.0                              | 570.5        | 588.6        |
| Exchange rate differences              |                           |                                  |                                | -0.7                                  |                           |                                  | -0.7         |              |
| Additions                              |                           |                                  | 69.8                           |                                       | 0.8                       |                                  | 70.6         | 0.3          |
| Disposals                              | -78.7                     | -0.5                             |                                |                                       | -0.6                      |                                  | -79.8        | -18.4        |
| <b>Acquisition cost at 31 December</b> | <b>449.7</b>              | <b>3.1</b>                       | <b>69.8</b>                    | <b>1.5</b>                            | <b>36.5</b>               | <b>0.0</b>                       | <b>560.7</b> | <b>570.5</b> |
| <b>Book value at 31 December 2005</b>  | <b>449.7</b>              | <b>3.1</b>                       | <b>69.8</b>                    | <b>1.5</b>                            | <b>36.5</b>               | <b>0.0</b>                       | <b>560.7</b> |              |
| <b>Book value at 31 December 2004</b>  | <b>528.5</b>              | <b>3.6</b>                       | <b>0.0</b>                     | <b>2.2</b>                            | <b>36.3</b>               | <b>0.0</b>                       |              | <b>570.5</b> |

## 9. Specification of long-term receivables

| MEUR   | 2005        | 2004        |
|--|-------------|-------------|
| <b>Receivables from group companies</b>      |             |             |
| Long-term investments                        | 3.1         | 3.6         |
| Loan receivables                             | 20.5        | 12.9        |
| <b>Total</b>                                 | <b>23.6</b> | <b>16.5</b> |
| <b>Receivables from associated companies</b> |             |             |
| Long-term investments                        | 1.5         | 2.2         |
| Loan receivables                             | 21.2        |             |
| <b>Total</b>                                 | <b>22.7</b> | <b>2.2</b>  |

## 10. Specification of short-term receivables

|  |              |              |
|--|--------------|--------------|
| Receivables from Group companies             |              |              |
| Trade receivables                            | 6.2          | 6.7          |
| Loan receivables                             | 659.6        | 653.1        |
| Prepaid expenses and accrued income          | 10.7         | 1.3          |
| <b>Total</b>                                 | <b>676.5</b> | <b>661.0</b> |
| <b>Receivables from associated companies</b> |              |              |
| Trade receivables                            | 0.0          | 0.1          |
| Prepaid expenses and accrued income          | 0.7          |              |
| <b>Total</b>                                 | <b>0.7</b>   | <b>0.1</b>   |

## 11. Main items in prepaid expenses and accrued income

|                        |             |            |
|------------------------|-------------|------------|
| Interest               | 0.6         | 3.2        |
| Other financial items  | 2.0         | 3.7        |
| Income and other taxes | 6.2         |            |
| Other items            | 1.5         | 2.2        |
| <b>Total</b>           | <b>10.3</b> | <b>9.2</b> |

| MEUR                                 | 2005  | 2004   |
|--------------------------------------|-------|--------|
| <b>12. Shareholders' equity</b>      |       |        |
| <b>Share capital</b>                 |       |        |
| Share capital on 1 January           |       |        |
| Series A                             | 82.5  | 54.0   |
| Series B                             | 241.4 | 154.8  |
| Total                                | 323.9 | 208.8  |
| Subscription based on warrants       | 5.4   |        |
| Conversion of debentures             |       | 7.2    |
| Share issue                          |       | 108.0  |
| Total                                | 5.4   | 115.2  |
| Share capital on 31 December         |       |        |
| Series A                             | 82.5  | 82.5   |
| Series B                             | 246.8 | 241.4  |
| Total                                | 329.4 | 323.9  |
| <b>Share premium reserve</b>         |       |        |
| Share premium reserve on 1 January   | 27.3  | 117.9  |
| Share issue                          |       | -108.0 |
| Issue premium                        | 16.7  | 17.5   |
| Share premium reserve on 31 December | 44.0  | 27.3   |
| <b>Retained earnings</b>             |       |        |
| Retained earnings on 1 January       | 530.8 | 572.9  |
| Ordinary dividend distribution       | -41.6 | -44.7  |
| Extra dividend distribution          | -41.6 | -61.7  |
| Reversal of revaluation              | -2.8  | -1.5   |
| Profit/loss for the year             | 7.3   | 65.8   |
| Retained earnings on 31 December     | 451.9 | 530.8  |
| <b>Distributable equity</b>          |       |        |
| Retained earnings on 31 December     | 451.9 | 530.8  |
| Distributable equity                 | 451.9 | 530.8  |
| <b>13. Provisions</b>                |       |        |
| Other provisions                     | 2.5   | 2.5    |
| Provisions total                     | 2.5   | 2.5    |
| Change in provisions                 | -     | -      |
| <b>14. Liabilities</b>               |       |        |
| <b>Long-term</b>                     |       |        |
| Non-interest-bearing                 | 0.0   |        |
| Interest-bearing                     | 198.0 | 202.1  |
| Total                                | 198.0 | 202.1  |
| <b>Current</b>                       |       |        |
| Non-interest-bearing                 | 39.6  | 58.4   |
| Interest-bearing                     | 324.8 | 273.2  |
| Total                                | 364.5 | 331.6  |

### Long-term debt with maturity profile

| MEUR                          | Bank loans   | Pension loans | Total        |
|-------------------------------|--------------|---------------|--------------|
| 2006                          |              | 24.7          | 24.7         |
| 2007                          | 7.1          | 16.4          | 23.5         |
| 2008                          | 7.1          | 8.4           | 15.5         |
| 2009                          | 42.8         | 4.2           | 47.0         |
| 2010 ->                       | 111.9        |               | 111.9        |
| <b>Total 31 December 2005</b> | <b>169.0</b> | <b>53.7</b>   | <b>222.7</b> |
| <b>Total 31 December 2004</b> | <b>148.4</b> | <b>82.1</b>   | <b>230.5</b> |

### 15. Main items in accrued expenses and deferred income

| MEUR                               | 2005 | 2004 |
|------------------------------------|------|------|
| Income and other taxes             | 0.2  | 16.3 |
| Personnel costs                    | 7.3  | 3.6  |
| Interest and other financial items | 19.9 | 11.5 |
| Other                              | 3.0  | 3.8  |
| Total                              | 30.3 | 35.2 |

### 16. Specification of current liabilities

#### Liabilities to Group companies

|                           |       |       |
|---------------------------|-------|-------|
| Trade payables            | 4.8   | 5.5   |
| Other current liabilities | 167.6 | 259.1 |
| Total                     | 172.4 | 264.6 |

#### Liabilities to associated companies

|                |     |
|----------------|-----|
| Trade payables | 0.0 |
| Total          | 0.0 |

### 17. Collateral, contingent liabilities and other commitments

| MEUR  | 2005<br>Balance<br>sheet<br>debt | Collateral | 2004<br>Balance<br>sheet<br>debt | Collateral |
|---|----------------------------------|------------|----------------------------------|------------|
| <b>Mortgages given as collateral for liabilities and commitments</b>      |                                  |            |                                  |            |
| Loans from credit institutions  | 0.7                              | 1.0        | 1.1                              | 1.1        |
| Off-balance-sheet commitments   |                                  |            |                                  | 9.8        |
| Total   | 0.7                              | 1.0        | 1.1                              | 10.9       |
| <b>Guarantees and contingent liabilities on behalf of Group companies</b> |                                  |            |                                  |            |
|   | 376.3                            |            | 315.0                            |            |
| <b>Nominal amounts of rents according to leasing contracts</b>            |                                  |            |                                  |            |
| Payable within one year   | 2.9                              |            | 2.0                              |            |
| Payable after one year  | 4.7                              |            | 8.4                              |            |
| Total   | 7.6                              |            | 10.4                             |            |

### 18. Inner circle loans and other commitments

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

## PROPOSAL OF THE BOARD

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On 31 December 2005 the consolidated retained earnings of the Group amounted to EUR 625,829,000 and included distributable funds totaling EUR 553,812,000. The Parent Company's net profit for the financial year amounted to EUR 7,291,138.24 and the retained earnings to EUR 444,607,860.48. The distributable funds of the Parent Company on 31 December 2005 amounted to EUR 451,898,998.72. The number of shares entitled to a dividend is 94,107,116. The Board of Directors proposes that a dividend of EUR 0.90 per share be paid, i.e. totally EUR 84,696,404.40,

and in addition an extra dividend having the value of EUR 0.60 per share, totalling EUR 56,464,269.60. After this the undistributed retained earnings in the Parent Company will be EUR 310,738,324.72.

Helsinki, 6 February 2006

Antti Lagerroos    Göran J. Ehrnrooth  
Heikki Allonen    Risto Hautamäki  
Jaakko Iloniemi   Bertel Langenskiöld  
Matti Vuoria

Ole Johansson  
*President and CEO*

## AUDITORS' REPORT

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Translation

### **To the shareholders of Wärtsilä Corporation**

We have audited the accounting records, the financial statements and the administration of Wärtsilä Corporation for the financial period 1 January – 31 December 2005. The Board of Directors and the President and CEO have prepared the Report of the Board of Directors and the consolidated financial statements, which comprise balance sheet, income statement, cash flow statement, statement of changes in shareholder's equity and notes to the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements, which comprise balance sheet, income statement, cash flow statement and notes to the financial statements, prepared in accordance with prevailing regulations in Finland. Based on our audit, we express an opinion on the consolidated financial statements, on the Report of Board of Directors as well as on the parent company's financial statements and administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements 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 administration is to examine that the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies Act.

### **Consolidated financial statements**

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and defined in the Finnish Accounting Act, give a true and fair view of the group's result of operations and of the financial position. The consolidated financial statements can be adopted.

### **Parent company's financial statements and administration**

In our opinion the parent company's financial statements and the Report of Board of Directors 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 Finnish Accounting Act, of the parent company's result of operations and 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 by the Board of Directors regarding the parent company's distribution of retained earnings is in compliance with the Companies Act.

Helsinki, 13 February 2006

KPMG OY AB

Mauri Palvi  
Authorized Public Accountant

## SHARES AND SHAREHOLDERS

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

Wärtsilä Corporation's share capital is minimum EUR 200 million and maximum EUR 800 million. Within these limits the share capital may be raised or lowered without amending the Articles of Association. The company's paid-up and registered share capital is EUR 329,374,906.00. Series A shares carry ten (10) votes and Series B shares one (1) vote at general shareholders' meetings. The nominal value of the shares is EUR 3.50. All shares carry equal dividend rights. There are 23,579,587 Series A shares and 70,527,529 Series B shares making 94,107,116 shares in all.

### Options rights for management

Following the decision of the AGM on 20 March 2001, a total of 1,500,000 options were issued to key persons in the Wärtsilä Group, entitling them to subscribe for Wärtsilä B shares. The share subscription period began on 1 April 2003 and ends on 31 March 2007. Any extra dividends distributed after 25 May 2001 and before the subscription of shares will be deducted from the subscription price. Trading in the 2001 options began on the Helsinki Stock Exchanges on 7 March 2005.

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

The company had no other share-linked personnel incentive schemes in force during 2005.

Under the terms and conditions of Wärtsilä's 2001 and 2002 option schemes, should the company increase its share capital with a bonus issue before the subscription of shares, the share subscription ratio shall be amended so that the ratio to the share capital of shares to be subscribed for by virtue of the options remains unchanged. Accordingly, the bonus issue as decided by the Extraordinary General Meeting on 1 December 2004, the share subscription price was divided by 1.5 and two (2) options shall entitle their holder to subscribe for three (3) Wärtsilä B shares. As a consequence of the bonus issues and extra dividend the share subscription price of 2001 options is 16.70 euros and the share subscription price of 2002 options 9.50 euros.

During the subscription period 1,556,499 shares were subscribed based on the 2001 and 2002 option schemes, which corresponds to 1.68% of the share capital. A total of 1,893,501 shares have not been subscribed, which corresponds to 2.05% of the share capital.

### Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 247,909 Wärtsilä Corporation shares, which represent 0.3% of the stock and 0.3% of the voting rights.

Under the 2001 option scheme issue the CEO and his deputy hold 104,000 options, entitling them to subscribe for altogether 156,000 shares, or 0.2% of the current total number of shares and 0.05% of the voting rights.

Under the 2002 option scheme issue the CEO and his deputy hold altogether 65,000 options, entitling them to subscribe for at most 97,500 shares, or 0.1% of the current total number of shares and 0.03% of the voting rights.

### Board's proposals to the Annual General Meeting

The Board of Directors proposes to the Annual General Meeting on 15 March 2006 that a dividend of 0.90 euros per share and an extra dividend of 0.60 euros per share be distributed on the financial year ended 31 December 2005.

Ownership structure according to shares 31 Dec. 2005



Ownership structure according to votes 31 Dec. 2005



The Board proposes that the AGM authorize the Board to repurchase and dispose of the company's own A and B shares in proportion to the number of shares in each series provided that the total nominal value of the purchased shares shall not exceed ten percent (10%) of the company's total share capital and voting rights. The company's own shares may be purchased using only distributable funds.

The shares may be purchased only in public trading at the prevailing price. The purchased shares may be used as consideration in future mergers and acquisitions or industrial reorganizations or for the development of the cap-

ital structure of the company or as part of its management incentive system. The shares may be purchased or disposed of for other consideration than cash.

The Board is authorized to determine to whom and in what order the company's own shares shall be disposed of. The Board may decide on the disposal of the shares otherwise than in proportion to shareholders' pre-emptive subscription rights. The Board shall decide on the disposal price of the shares and on the other terms related to their disposal, and the shares may be disposed of for other consideration than cash. The authorization includes

the right to set the principles used to determine the disposal price. The shares may be disposed of as consideration in future mergers and acquisitions or industrial reorganizations or for the development of the capital structure of the company or as part of its management incentive system.

This authorization is in force for one year from the resolution of the Annual General Meeting. Upon deciding on approval of the proposal, the Annual General Meeting can at the same time cancel a similar authorization given previously.

| Share information                        | Series A   | Series B   |
|--|------------|------------|
| Share codes                              |            |            |
| OMX AB                                   | WRTAV      | WRTBV      |
| Reuters                                  | WRTAV.HE   | WRTBV.HE   |
| Bloomberg                                | WRTAV.FHI  | WRTBV.FH   |
| Lot size                                 | 100        | 100        |
| Votes/share                              | 10         | 1          |
| Number of shares                         | 23,579,587 | 70,527,229 |
| Taxation value in Finland 2005 EUR/share | 17.16      | 17.45      |

#### Dilution effect of the option schemes

|                               | Number of shares |            | Share capital    | Votes      | Price, EUR | Subscription period                     |
|-------------------------------|------------------|------------|------------------|------------|------------|---|
|                               | Series B         | %          | EUR              | %          |            |   |
| Share option programme (2001) | 1,229,451        | 1.3        | 4,303,078        | 0.4        | 16.70      | 1 April 2003-31 March 2007 <sup>1</sup> |
| Share option programme (2002) | 664,050          | 0.7        | 2,324,175        | 0.2        | 9.50       | 1 April 2003-31 March 2008 <sup>1</sup> |
| <b>Total</b>                  | <b>1,893,501</b> | <b>2.0</b> | <b>6,627,253</b> | <b>0.6</b> |            |   |

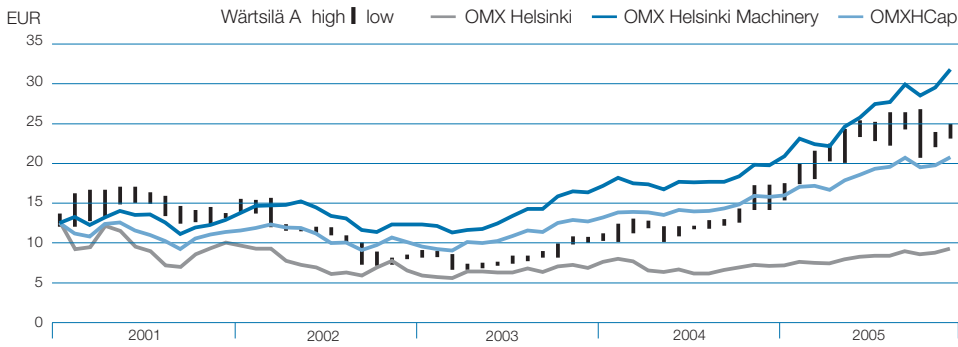
Number of Wärtsilä shares 96,000,617 and number of votes 308,216,900, if subscription rights are exercised.

<sup>1</sup> Subscription period annually between 2 Jan. – 30 Nov.

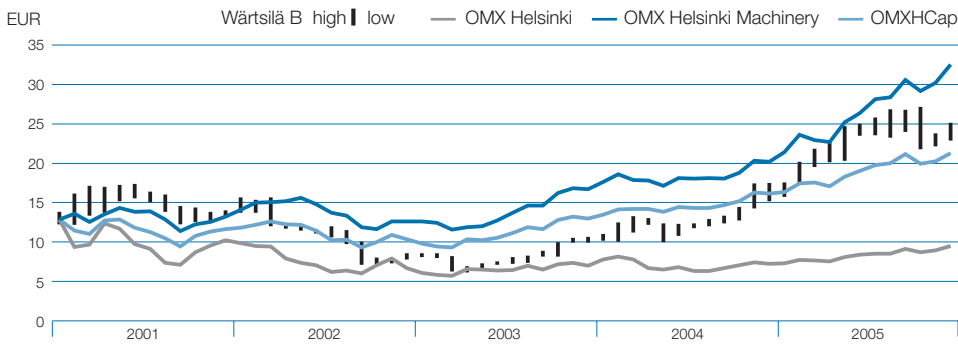
#### Change in share capital

|                               | Series A          |             |                    |             | Series B          |             |                   |             | Total             |                    |
|-------------------------------|-------------------|-------------|--------------------|-------------|-------------------|-------------|-------------------|-------------|-------------------|--------------------|
|                               | Shares            | %           | Shares             | %           | Shares            | %           | Shares            | %           | Shares            | Shares             |
| Shares and votes 31 Dec. 2004 | 23,579,587        | 25.5        | 235,795,870        | 77.4        | 68,971,030        | 74.5        | 68,971,030        | 22.6        | 92,550,617        | 304,766,900        |
| Bonds with options subscribed | -                 | -           | -                  | -           | 1,556,499         | -           | 1,556,499         | -           | 1,556,499         | 1,556,499          |
| <b>Total 31 Dec. 2005</b>     | <b>23,579,587</b> | <b>25.1</b> | <b>235,795,870</b> | <b>77.0</b> | <b>70,527,529</b> | <b>74.9</b> | <b>70,527,529</b> | <b>23.0</b> | <b>94,107,116</b> | <b>306,323,399</b> |

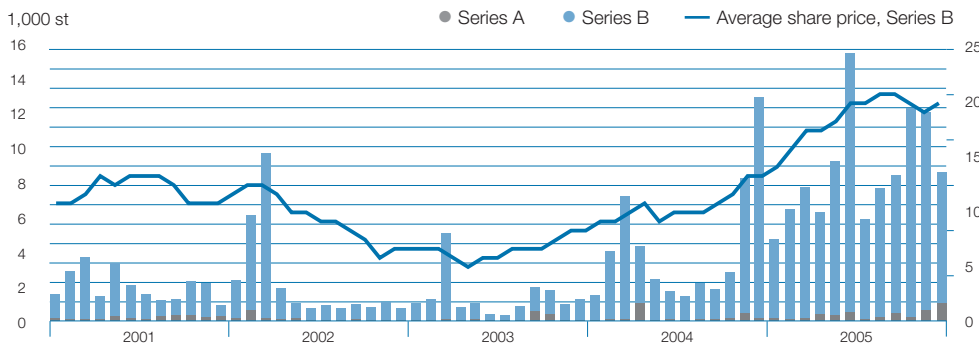
### Series A quotations 2001–2005



### Series B quotations 2001–2005

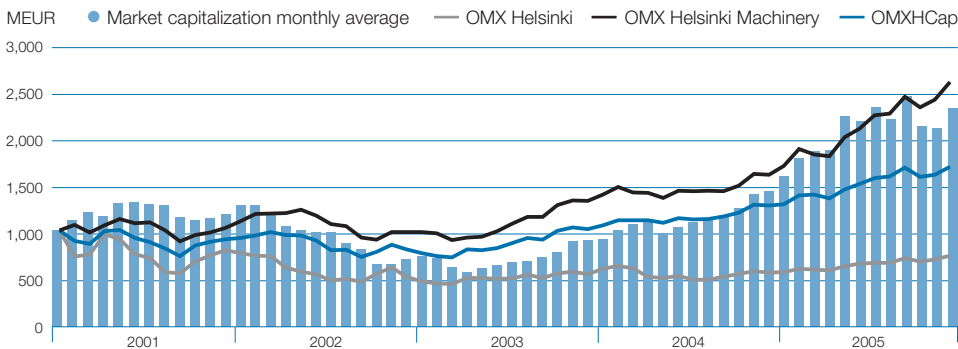


### Traded shares/month 2001–2005



The graphs have been adjusted for the 2004 bonus issue.  
Approximately 12% of all Wärtsilä shares were traded on the SEAQ system in London during 2005.

### Market capitalization 2001–2005



## Major shareholders 31 December 2005

|  | Number of shares x1,000 |               | % of votes   | % of shares  |
|--|-------------------------|---------------|--------------|--------------|
|  | Series A                | Series B      |              |              |
| 1 Fiskars Corporation                            | 8,651                   | 7,165         | 30.58        | 16.81        |
| 2 Sampo Life Insurance Company Ltd.              | 1,984                   | 0             | 6.48         | 2.11         |
| 3 Varma Mutual Pension Insurance Company         | 1,385                   | 1,173         | 4.91         | 2.72         |
| 4 Svenska litteratursällskapet i Finland r.f.    | 1,449                   | 22            | 4.74         | 1.56         |
| 5 Sigrid Jusélius Foundation                     | 558                     | 1             | 1.82         | 0.60         |
| 6 Brita Maria Renlund Foundation                 | 394                     | 400           | 1.42         | 0.84         |
| 7 The Signe & Ane Gyllenberg Foundation          | 370                     | 25            | 1.22         | 0.42         |
| 8 The Social Insurance Institution of Finland    | 284                     | 652           | 1.14         | 1.00         |
| 9 Relander Gustaf                                | 244                     | 0             | 0.80         | 0.26         |
| 10 Ehrnrooth Johan Robert Göran                  | 234                     | 98            | 0.80         | 0.35         |
| 11 Markus Ehrnroot Foundation                    | 230                     | 40            | 0.76         | 0.29         |
| 12 Åbo Akademi Foundation                        | 196                     | 63            | 0.66         | 0.28         |
| 13 William Thuring's Stiftelse                   | 200                     | 20            | 0.66         | 0.23         |
| 14 Livränteanstalten Hereditas                   | 155                     | 464           | 0.66         | 0.66         |
| 15 Jenny and Antti Wihuri Foundation             | 144                     | 471           | 0.63         | 0.65         |
| 16 Samfundet Folkhälsan i Svenska Finland Rf     | 141                     | 456           | 0.61         | 0.63         |
| 17 Ella and Georg Ehrnrooth Foundation           | 142                     | 263           | 0.55         | 0.43         |
| 18 Mutual Insurance Company Kaleva               | 166                     | 0             | 0.55         | 0.18         |
| 19 Bergsr. Dr H. C. Marcus Wallenberg Foundation | 137                     | 60            | 0.47         | 0.21         |
| 20 Technology Industries of Finland              | 127                     | 58            | 0.44         | 0.20         |
| <b>20 largest total</b>                          | <b>17,199</b>           | <b>11,436</b> | <b>59.88</b> | <b>30.43</b> |

Wärtsilä has about 25,000 registered shareholders.

## Division of shares 31 December 2005

| Number of shares  | Series A               |              |                   |              | Series B               |              |                   |              |
|-------------------|------------------------|--------------|-------------------|--------------|------------------------|--------------|-------------------|--------------|
|                   | Number of shareholders | %            | Number of shares  | %            | Number of shareholders | %            | Number of shares  | %            |
| 1-100             | 4,360                  | 43.5         | 193,054           | 0.8          | 4,155                  | 17.7         | 238,526           | 0.3          |
| 101-1,000         | 4,640                  | 46.3         | 1,561,174         | 6.6          | 14,394                 | 61.4         | 5,619,187         | 8.0          |
| 1,001-10,000      | 922                    | 9.2          | 2,224,685         | 9.4          | 4,467                  | 19.1         | 11,454,467        | 16.2         |
| 10,001-100,000    | 80                     | 0.8          | 2,401,225         | 10.2         | 379                    | 1.6          | 10,291,827        | 14.6         |
| 100,001-1,000,000 | 16                     | 0.2          | 3,727,594         | 15.8         | 43                     | 0.2          | 12,453,180        | 17.7         |
| 1,000,001-        | 4                      | 0.0          | 13,471,855        | 57.1         | 6                      | 0.0          | 30,435,110        | 43.2         |
| <b>Total</b>      | <b>10,022</b>          | <b>100.0</b> | <b>23,579,587</b> | <b>100.0</b> | <b>23,444</b>          | <b>100.0</b> | <b>70,527,529</b> | <b>100.0</b> |

## Ownership structure December 2005

| %                                      | Series A     |             | Series B     |             | Total        |              |
|--|--------------|-------------|--------------|-------------|--------------|--------------|
|  | Shareholders | Shares      | Shareholders | Shares      | Shareholders | Shares       |
| Private corporations                   | 1.9          | 9.8         | 4.2          | 10.6        | 33.5         | 20.5         |
| Banks and insurance companies          | 0.2          | 2.4         | 0.4          | 5.3         | 9.0          | 7.7          |
| Public sector entities                 | 0.1          | 1.8         | 0.3          | 6.5         | 7.6          | 8.4          |
| Non-profit organizations               | 3.4          | 5.8         | 3.1          | 8.9         | 20.7         | 14.8         |
| Households                             | 93.0         | 4.8         | 91.0         | 19.8        | 21.0         | 24.6         |
| Outside Finland and nominee registered | 1.3          | 0.3         | 1.0          | 23.8        | 8.2          | 24.1         |
| <b>Total</b>                           | <b>100.0</b> | <b>25.1</b> | <b>100.0</b> | <b>74.9</b> | <b>100.0</b> | <b>100.0</b> |

The adjacent tables are based on the book-entry accounts at 31 December 2005.



### The Wärtsilä share on the Helsinki Exchange

|                                |       | 2005    | 2004    | 2003   | 2002   | 2001   |
|--------------------------------|-------|---------|---------|--------|--------|--------|
| Trading volume                 | MEUR  |         |         |        |        |        |
| Series A                       |       | 72.2    | 41.6    | 21.0   | 24.5   | 39.8   |
| Series B                       |       | 1,796.6 | 860.0   | 275.9  | 457.7  | 392.6  |
| Total                          |       | 1,868.8 | 901.6   | 296.9  | 482.2  | 432.4  |
| Number of traded               | 1,000 |         |         |        |        |        |
| Series A                       |       | 3,160   | 2,180   | 2,508  | 1,890  | 2,853  |
| Series B                       |       | 79,635  | 45,527  | 35,001 | 36,805 | 26,868 |
| Total                          |       | 82,795  | 47,707  | 37,509 | 38,695 | 29,721 |
| Stock turnover                 | %     |         |         |        |        |        |
| Series A                       |       | 13.4    | 9.2     | 10.8   | 8.2    | 13.2   |
| Series B                       |       | 112.9   | 66.0    | 52.8   | 55.7   | 43.1   |
| Total                          |       | 88.0    | 51.5    | 41.9   | 43.4   | 35.4   |
| Average share price            | EUR   |         |         |        |        |        |
| Series A                       |       | 22.73   | 13.03   | 8.37   | 12.95  | 13.96  |
| Series B                       |       | 22.46   | 13.60   | 7.89   | 12.43  | 14.61  |
| Trading low/high               | EUR   |         |         |        |        |        |
| Series A                       | low   | 15.31   | 10.17   | 6.67   | 7.21   | 12.02  |
|                                | high  | 26.70   | 17.32   | 10.87  | 15.67  | 17.00  |
| Series B                       | low   | 15.68   | 9.97    | 6.13   | 6.97   | 12.17  |
|                                | high  | 27.09   | 17.48   | 10.63  | 15.67  | 17.33  |
| Share price at the year end    | EUR   |         |         |        |        |        |
| Series A                       |       | 24.84   | 15.24   | 10.17  | 8.52   | 13.73  |
| Series B                       |       | 25.00   | 15.68   | 10.13  | 8.01   | 13.87  |
| Year-end market capitalization | MEUR  | 2,349   | 1,440.8 | 907.0  | 727.0  | 1,234  |

The tables have been adjusted for the 2004 bonus issue. Formulas for calculating the financial ratios are given on page 4.

### Key figures for Wärtsilä shares

|                            |           | 2005              | IFRS<br>2004 | FAS<br>2004 | 2003   | 2002   | 2001   |
|----------------------------|-----------|-------------------|--------------|-------------|--------|--------|--------|
| Earnings per share (EPS)   | EUR       | 1.80              | 1.42         | 1.75        | -0.44  | 1.37   | 3.69   |
| Book value of equity/share | EUR       | 12.25             | 9.65         | 9.22        | 8.69   | 10.37  | 11.70  |
| Dividend /share            | EUR       | 1.50 <sup>1</sup> | 0.90         | 0.90        | 0.50   | 1.17   | 2.67   |
| Dividend/earnings          | %         | 83.3 <sup>1</sup> | 63.4         | 51.4        | n/a    | 85.4   | 72.3   |
| Dividend yield             | %         |                   |              |             |        |        |        |
| Series A                   |           | 7.25 <sup>1</sup> | 5.91         | 5.91        | 4.92   | 13.69  | 19.42  |
| Series B                   |           | 7.20 <sup>1</sup> | 5.74         | 5.74        | 4.93   | 14.56  | 19.23  |
| Price/earnings (P/E)       |           |                   |              |             |        |        |        |
| Series A                   |           | 13.8              | 10.7         | 8.7         | n/a    | 6.2    | 3.7    |
| Series B                   |           | 13.9              | 11.0         | 9.0         | n/a    | 5.9    | 3.8    |
| Price to book value (P/BV) |           |                   |              |             |        |        |        |
| Series A                   |           | 2.0               | 1.6          | 1.7         | 1.2    | 0.8    | 1.2    |
| Series B                   |           | 2.0               | 1.6          | 1.7         | 1.2    | 0.8    | 1.2    |
| Adjusted number of shares  | 1.000 kpl |                   |              |             |        |        |        |
| end of financial year      |           | 94,107            | 91,341       | 91,341      | 89,475 | 89,204 | 89,181 |
| on average                 |           | 93,010            | 92,551       | 92,551      | 89,341 | 89,181 | 84,146 |

<sup>1</sup> Proposal of the Board of Directors.

### BOARD OF DIRECTORS

#### **Mr Antti Lagerroos**

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

*Primary working experience:*

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

*Other positions of trust:*

Ilmarinen Mutual Pension Insurance Company, Member of the Supervisory Board; Confederation of Finnish Industries EK, Member of the Board; Finnish Shipowners' Association, Member of the Board since 1990 & Chairman of the Board 1991–95 and 2000–2001; Schiffhypothekenbank zu Lübeck AG (Deutsche Bank), Member of Advisory Board (Germany).

#### **Mr Göran J. Ehrnrooth**

Deputy Chairman of the Board of Wärtsilä Corporation. Born 1934, MSc (Econ.). Chairman of the Board of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 1992.

*Primary working experience:*

President of Fiskars Corporation 1969–83.

#### **Mr Heikki Allonen**

Member of the Board of Wärtsilä Corporation since 2004. Born 1954, MSc (Eng.). President & CEO of Fiskars Corporation.

*Primary working experience:*

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

*Other positions of trust:*

Rautaruukki Corporation, Member of the Supervisory Board.

#### **Mr Risto Hautamäki**

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

*Primary working experience:*

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

#### **Mr Jaakko Iloniemi**

Member of the Board of Wärtsilä Corporation since 1994. Born 1932, MSc (Pol. Sc.).

*Primary working experience:*

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

#### **Mr Bertel Langenskiöld**

Member of the Board of Wärtsilä Corporation since 2002. Born 1950, MSc (Eng.). President and CEO of Metso Minerals, Inc.

*Primary working experience:*

Tampella Power Kvaerner Pulping, Power Division, President 1994–2000; Fiskars Corporation, President & CEO 2001–03.

*Other positions of trust:*

Member of the Board of Cidron International Oy (Outokumpu Copper Products Oy).

#### **Mr Matti Vuoria**

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

*Primary working experience:*

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

*Other positions of trust:*

Danisco A/S, Sampo plc, Stora Enso Oyj, Member of the Boards; Winwind Oy, Chairman of the Board; The Federation of Finnish Insurance Companies, Member of the Board and the Finnish Pension Alliance TELA, Chairman of the Board.

## BOARD OF MANAGEMENT

### **Mr Ole Johansson**

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

#### *Primary working experience:*

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

#### *Positions of trust:*

Board Vice Chairman, Outokumpu Oyj; Board Vice Chairman, Varma Mutual Pension Insurance Company; Board Vice Chairman, Technology Industries of Finland; Board Member, Confederation of Finnish Industries EK; Board Member of Central Chamber of Commerce of Finland and of the Finnish Section of the International Chamber of Commerce ICC.

### **Mr Raimo Lind**

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

#### *Primary working experience:*

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

#### *Positions of trust:*

Member of the Board, Sato-Yhtymä Oyj.

### **Mr Mikael Mäkinen**

Executive Vice President since 2005. Group Vice President, Ship Power since 1999. Born 1956, MSc (Eng.), Naval Architect. Joined the company in 1982.

#### *Primary working experience:*

Wärtsilä Helsinki Shipyard, Project Engineer & Manager 1980–84; Wärtsilä Helsinki Shipyard, Project Manager 1984–87; Wärtsilä Shipbuilding Group, Singapore 1987–89; Wärtsilä Diesel, Area Director, Marine, Asia 1989–92; Wärtsilä SACM Diesel, France, Vice President 1992–97; Wärtsilä NSD Singapore, Managing Director 1997–98.

#### *Positions of trust:*

Member of the Board, AB Volvo Pentta; Member of the Board, Delta-Sigma Oy.

### **Mr Pekka Ahlqvist**

Group Vice President, Power Plants since 2001. Born 1946, MSc (Eng.), MBA. Joined the company in 1999.

#### *Primary working experience:*

Kymi-Strömberg Oy, managerial positions 1972–85; ABB Industry, Division President and Executive Vice President 1987–90; ABB Industry, President 1990–94; ABB Finland, Business Development Manager and member of the Executive Board, 1994–95; ABB China, Senior Vice President, Industrial and Building Systems segment 1995–98; ABB Thailand, Senior Vice President, Low Voltage Products and Systems business in Asia-Pacific 1998–99; Wärtsilä NSD Finland Oy, President 1999–2001.

#### *Positions of trust:*

Member of the Board, Vacon Plc

### **Mr Tage Blomberg**

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

#### *Primary working experience:*

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

### **Mr Lars Hellberg**

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

#### *Primary working experience:*

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

#### *Positions of trust:*

Member of the Board, Oy Ovako Ab.

### **Mr Kari Hietanen**

Group Vice President, Legal Affairs and HR. Company Secretary and secretary to the Board of Management since 2003. Born 1963, LL.M. Joined the company in 1989.

#### *Primary working experience:*

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

### **Mr Matti Kleimola**

Group Vice President, Technology and Environment since 2000. CTO. Prof. Lic.Sc (Tech.) Born 1946. Employed by the company 1974–84 and rejoined in 2000.

#### *Primary working experience:*

HUT Automotive laboratory, Chief Engineer 1971–73; Suomen Autoteollisuus Oy Ab, Development Manager 1973–74; Wärtsilä Oy Ab, Design Manager 1974–76; Wärtsilä Oy Ab, R&D Manager 1976–80; Wärtsilä Diesel Group, R&D Director 1980–84; Professor, HUT Machine Design, Head of of laboratory 1984–97; Professor, HUT Internal Combustion Engines, Head of laboratory 1997–2000.

#### *Positions of trust:*

Member of the Board, Finnish Academies of Technology; Chairman of the Finnish Society of Workshop Engineers; Chief Engineer Counsellor, expert member, The Supreme Administrative Court of Finland; President of CIMAC (The International Council on Combustion Engines).

CHANGES IN WÄRTSILÄ'S  
BOARD OF MANAGEMENT AND  
BUSINESS MANAGEMENT BOARDS  
FROM 1 APRIL 2006

**Jaakko Eskola** (47) MSc (Eng.) has been appointed Group Vice President, Ship Power and a member of the Board of Management. He joined Wärtsilä in 1998 as Managing Director of Wärtsilä Development and Financial Services Oy. Since 1995 Jaakko Eskola has been responsible for global sales and marketing of Wärtsilä Power Plants.

**Christoph Vitzthum** (36) MSc (Econ.) has been appointed Group Vice President, Power Plants and a member of the Board of Management. Mr Vitzthum started with Wärtsilä as a foreign exchange dealer in 1995. Since 2002 he has been Managing Director of Wärtsilä Propulsion, based in Havant, Great Britain.

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Pekka Ahlqvist, currently Group Vice President, Power Plants retires in spring 2006. He will continue to work for Wärtsilä holding responsibility for supervising the Wärtsilä companies specializing in automation products and services and for strategic management of Wärtsilä's automation activities.

Matti Kleimola, Prof. CTO, Group Vice President, Technology and Environment, retires on 1 May 2006. Although retired, Professor Kleimola will continue to act as an advisor to the Board of Management in matters related to Wärtsilä's field of technology.

Executive Vice President Mikael Mäkinen, who currently heads the Ship Power business, leaves Wärtsilä to join another company on 1 April 2006.

SHARE OWNERSHIP IN WÄRTSILÄ 31 DECEMBER 2005

| Board of Directors                | A shares | B shares |
|-----------------------------------|----------|----------|
| Antti Lagerroos, Chairman         |          | 12,777   |
| Change in 2005                    |          | +1,134   |
| Göran J. Ehrnrooth, Vice Chairman | 4,222    | 8,520    |
| Change in 2005                    |          | +851     |
| Heikki Allonen                    |          | 1,513    |
| Change in 2005                    |          | +567     |
| Risto Hautamäki                   |          | 4,400    |
| Change in 2005                    |          | +650     |
| Jaakko Iloniemi                   |          | 3,909    |
| Change in 2005                    |          | +567     |
| Bertel Langenskiöld               |          | 3,735    |
| Change in 2005                    |          | +567     |
| Matti Vuoria                      |          | 567      |
| Change in 2005                    |          | +567     |

SHARE AND OPTION OWNERSHIP IN WÄRTSILÄ 31 DECEMBER 2005

| Board of Management | A share | B share | Option 2001 | Option 2002 |
|---------------------|---------|---------|-------------|-------------|
| Ole Johansson       | 2,550   | 21,700  | 84,000      | 50,000      |
| Change in 2005      |         | +10,000 | -           | -100,000    |
| Raimo Lind          | 795     | 1,545   | 20,000      | 15,000      |
| Change in 2005      |         |         | -22,000     | -25,000     |
| Mikael Mäkinen      |         |         | -           | 40,000      |
| Change in 2005      |         |         | -42,000     | -           |
| Pekka Ahlqvist      |         | 2,250   | 21,000      | 20,000      |
| Change in 2005      |         |         | -21,000     | -20,000     |
| Tage Blomberg       | 2,025   |         | -           | 10,000      |
| Change in 2005      |         |         | -42,000     | -30,000     |
| Lars Hellberg *     |         |         | 12,000      | -           |
| Change in 2005      |         |         | -30,000     | -           |
| Kari Hietanen       |         | 72      | 12,000      | 15,000      |
| Change in 2005      |         |         | -30,000     | -25,000     |
| Matti Kleimola      | 750     | 750     | -           | 30,000      |
| Change in 2005      |         |         | -42,000     | -10,000     |

\* Granted in February 2005.

## ANALYST COVERAGE

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To our knowledge at least the following brokers and analysts follow the development of Wärtsilä on their own initiative. They have followed and drawn up

reports and comments and are able to evaluate the company as an investment target. Wärtsilä takes no responsibility for their opinions:

|                                  |                  |                  |                              |
|----------------------------------|------------------|------------------|------------------------------|
| Alfred Berg ABN AMRO             | Jan Brännback    | +358 9 228 321   | jan.brannback@alfredberg.fi  |
| CA Cheuvreux                     | Patrik Sjöblom   | +46 8 723 5115   | pjoblom@cheuvreux.com        |
| Carnegie Investment Bank AB      | Miikka Kinnunen  | +358 9 618 711   | miikka.kinnunen@carnegie.fi  |
| Deutsche Bank AG, Helsinki       | Timo Pirskanen   | +358 9 2525 2553 | timo.pirskanen@db.com        |
| Enskilda Securities AB, Helsinki | Kaisa Ojainmaa   | +358 9 6162 8726 | kaisa.ojainmaa@enskilda.fi   |
| eQ Bank                          | Juha Iso-Herttua | +358 9 6817 8651 | juha.iso-herttua@eqonline.fi |
| FIM Securities Ltd               | Lauri Saarela    | +358 9 6134 6307 | mauri.saarela@fim.com        |
| Handelsbanken Capital Markets    | Tom Skogman      | +358 10 444 2752 | tom.skogman@handelsbanken.fi |
| Kaupthing Bank                   | Johan Lindh      | +358 9 4784 0268 | johan.lindh@kaupthing.fi     |
| Mandatum Securities Ltd          | Antti Suttelin   | +358 10 236 4710 | antti.suttelin@mandatum.fi   |
| Opstock Ltd                      | Pekka Spolander  | +358 10 252 4351 | pekka.spolander@oko.fi       |

## INVESTOR RELATIONS

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

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

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

Investor Relations Manager Joséphine Ramsay is responsible for Wärtsilä's investor and analyst relations.

**Contact information:**

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Investor Relations Manager  
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Fax +358 10 7095 219  
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## 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.



# WÄRTSILÄ

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