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

Key figures in 2005
• Net sales EUR 710.3 million (631.2)
• Order intake EUR 1,545.3 million (836.7)
• Order book, end of period EUR 1,658.5 million (812.7)

Wärtsilä is the leading provider of ship machinery, propulsion and manoeuvring solutions. Wärtsilä supplies engines and generating sets, reduction gears, propulsion equipment, control systems and sealing solutions for all types of vessels and offshore applications.

POWER PLANTS

Key figures in 2005
• Net sales EUR 710.3 million (651.9)
• Order intake EUR 865.2 million (1,019.5)
• Order book, end of period EUR 943.9 million (752.4)

Wärtsilä is a leading supplier of power plants for the decentralized power generation market. Wärtsilä offers power plant solutions based on oil, gas and dual-fuel engines as well as bio-mass fuelled heat and power plants.

SERVICE

Key figures in 2005
• Net sales EUR 1,093.1 million (936.8)
• Order intake EUR 1,077.1 million (930.8)
• Order book, end of period EUR 303.3 million (290.2)
• Personnel, end of period 7,200 (6,378)
The market position of Wärtsilä’s marine engines

Wärtsilä supports its customers throughout the lifecycle of their installations. Wärtsilä provides service and maintenance as well as reconditioning solutions both for ship machinery and power plants. Wärtsilä is expanding its service business by introducing innovative services that support its customers’ business, service for multiple engine brands in key ports, long-term service contracts, predictive and condition-based maintenance, and operations and maintenance contracts.

Wärtsilä’s engine base

1,000 MW

| Ship Power | 119 |
| Power Plants | 31 |
| Medium-speed engines | 84 |
| Low-speed engines | 66 |
| Total 150.470 MW |

Reciprocating engine and gas turbine orders and Wärtsilä’s market share

- Gas power plants: 7,574 MW (7.8%)
- LFO power plants: 907 MW (8.7%)
- HFO power plants: 1,921 MW (44.2%)
- Wärtsilä: 14.6%
- Reciprocating Competitors: 16.2%
- Gas turbines: 69.2%

*Unit size ≤ 60 MW

Market share total* (MW, order intake)

- Fuel oil power plants: 850 MW (924)
- Gas power plants: 634 MW (374)
- Crude oil power plants: 114 MW (81)
- Renewable power plants for electricity production: 13 MW (8)

In addition, 114 MW (116) of heat boiler plants were delivered by Biopower.

Source: Diesel & Gas Turbine Worldwide. Statistics from period June 04–May 05.
The consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). Wärtsilä’s date of transition was 1 January 2005. Prior to IFRS, Wärtsilä’s financial reporting was based on Finnish accounting standards (FAS). In the graphs and tables, the data for 2004 and 2005 are presented according to IFRS and for prior years according to FAS.
Highlights
- Order book and order intake at record levels.
- Profitability on target.
- Imatra Steel moved to Oy Ovako Ab.
- Continued development of Ship Power and Service businesses through acquisitions and strengthened position in Asia.
- Power Plants business highly successful in gas power plant markets.

Wärtsilä successful in several sectors
- Growth in LNG carriers continued. Major orders include 24 Wärtsilä 50DF engines for AP Möller and Kawasaki Kisen Kaisha carriers. Engine orders have combined output of 239.4 MW.
- Offshore sector active throughout the year and Wärtsilä gains several significant orders for both oil platforms and support vessels. Sales of total ship power solutions rise strongly during the year, a good example being the order for 32 engines and 16 thrusters for Danish AB Möller-Mäersk A/S oil drilling platform.
- First maritime global operations & maintenance agreement signed with German shipowner Reederei Blue Star GmbH.
- Wärtsilä becomes a significant supplier of gas power plants. Order for five power plants, combined output 450 MW, received from Azerbaijan.

Further development through acquisitions and strengthened position in Asia
- Thruster manufacturing company Wärtsilä Propulsion (Wuxi) Co Ltd began production in June.
- Construction of auxiliary engine factory for joint venture 50/50-owned with China Shipbuilding Industry Corporation (CSIC) started in September. Production expected to begin in early summer 2006.
- Strategic alliance in 2-stroke diesel engines signed in September with Mitsubishi Heavy Industries Ltd (MHI).
- Acquisition of 12.5% holding in Aker Arctic Technology Inc. to enhance know-how in arctic marine technology.
- Wärtsilä acquired 12,500 MW service base of DEUTZ medium-speed marine engines from DEUTZ AG, and took over worldwide service and sales of original spare parts for these engines.
- Joint venture for marine service established with BLRT Baltica Group in Estonia. Service company set up in Hong Kong. Wärtsilä present in major ports around the world.
- Wärtsilä acquired control and automation equipment service business of Gerhard Ltd in USA at year end.

Group net sales by business
- Ship Power ....................... 28% (28)
- Service .......................... 43% (42)
- Power Plants .................... 28% (29)

Group net sales by market area
- Europe ........................., 39% (40)
- Asia ............................., 38% (36)
- The Americas ................., 16% (16)
- Other ............................., 7% (8)

Megawatts delivered
- Ship Power ........................, 1,760 (1,474)
- Power Plants ........................, 1,607 (1,363)
- Licence-built ........................, 3,577 (3,053)
- BioPower, thermal energy 117 (121)
### Key ratios

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<td>2,357.5</td>
<td>2,478.2</td>
<td>2,478.2</td>
<td>2,638.8</td>
<td>570.7</td>
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<td>Ship Power</td>
<td>686.1</td>
<td>631.2</td>
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<td>710.3</td>
<td>139.9</td>
<td>153.0</td>
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<td>Service</td>
<td>885.5</td>
<td>936.8</td>
<td>936.8</td>
<td>1,093.1</td>
<td>237.9</td>
<td>266.8</td>
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<td>Power Plants</td>
<td>577.5</td>
<td>651.9</td>
<td>651.9</td>
<td>710.3</td>
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<td>Imatra Steel</td>
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<td>119.0</td>
<td>87.3</td>
<td>31.7</td>
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#### Operational EBIT

- 100.0 (132.0)
- 112.0 (112.0)
- 224.3 (46.4)
- 48.4 (43.5)
- 43.5 (86.1)

#### Personnel by market area

- Europe: 62% (68)
- Asia: 26% (21)
- The Americas: 10% (8)
- Other: 2% (3)

#### Personnel by business

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

#### Breakdown of capitalization

- Total shareholders' equity MEUR 1,153.1 (892.7)
- Total liabilities MEUR 1,705.7 (1,496.8)

1 2004 and 2003 do not include writedowns included in restructuring.
2 Excluding non-recurring costs.
3 Capital gains are entered below operating income as required by IFRS.
Wärtsilä enhances the business of its customers by providing them with complete lifecycle power solutions. When creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products and solutions as well as services. Through innovative products and services, Wärtsilä sets out to be the most valued business partner of all its customers. This is achieved by the dedication of more than 12,000 professionals manning 130 Wärtsilä offices in over 60 countries around the world.
Wärtsilä’s strategy
Wärtsilä serves customers in two global markets: Marine and Energy. The core of our strategy remains largely unchanged. We support our customers through the lifetime of their installations – from design and supply of new products and solutions to service, spare parts and guaranteed operational support whenever and wherever in the world they are needed.

Ship Power solutions – growth through new products and an increasing presence in Asia
We want to maintain our leading position in the ship power business and to grow further by providing our customers with the best lifetime efficiency and reliability in the market through an integrated offering that meets their business needs throughout the world.

We will also grow by adding to our offering new products and services that will help our customers operate their vessels more efficiently and safely. We will increase our capabilities in automation, electronics and ship design. We will strengthen our offering of solutions for environmentally safe and reliable vessel operation through a combination of organic growth, partnerships and acquisitions.

In the service market we also support other than Wärtsilä-manufactured equipment on board our customers’ vessels, either by becoming the OEM or by providing non-OEM service in key ports. We are convinced that this one-stop-shop concept will prove increasingly successful in the marketplace and be a source of stable and growing revenues beyond our own installed equipment base. Our skilled people, our strong market position and our network covering over 130 locations in 60 countries make us uniquely positioned to bring such a broad offering to our customers efficiently and on a global scale.
Asia continues to dominate shipbuilding. We have strengthened our presence in the market in sourcing, manufacturing, sales and lifetime support and will continue to do so. Both in our existing business and in the new growth areas we will use partnerships and acquisitions where appropriate to help us reach our goals faster or to gain access to crucial capabilities.

**Power Plant solutions – stronger position in decentralized energy**

In our Power Plants business our target is to strengthen our global position in the decentralized energy generation markets.

We supply power plants and operation and maintenance services to electricity utilities, industry, local authorities, and other electricity and heat producers. We provide power generation solutions based on oil, gas and dual-fuel reciprocating engines, and on biomass-fuelled plants. Our competitive advantage is the high efficiency of our power plants coupled with operational flexibility, which gives our 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. Our offering of gas and dual-fuel power plants has proven competitive, and this will be an area of increasing focus. In HFO-fired plants, market growth is more modest and we will actively focus on defined segments with above-average growth. Our well-developed Service business, which consists of spare parts, field service, and maintenance and operations agreements, ensures that our customers can count on excellent availability and reliability throughout the lifetime of their plants.

**Technological leadership in reliability, operating economy, automation and environmental technologies**

Wärtsilä develops and designs competitive engine and propulsion products and solutions. Our target is to be the leader in engine technology in the areas of environmental technologies, reliability, operating economy and automation. For our customers this will mean fewer upgrades, better control over their business and investments, and lower risks.

Our future engine portfolio will consist of engines of Wärtsilä design as well as engines designed in partnership and sourced from partners. Future focus areas will also include total system design, integration and automation. Partnering with research institutes and other companies will effectively bring together the special competences we require.

**Manufacturing**

In engine manufacturing Wärtsilä focuses on medium-speed engines designed to run primarily on HFO or gas. These are assembled in our factories in Vaasa, Finland, and Trieste, Italy, and starting in 2006, in our joint venture Wärtsilä Qiyao Diesel Company Ltd (Shanghai), China.

Low-speed engines are manufactured and sold by licensee partners according to Wärtsilä design and specifications. Due to their large size, these engines are assembled close to shipyards, which requires a manufacturing presence that Wärtsilä does not have. Low-speed engines contribute a relatively small share of Wärtsilä’s revenues as the sales income is received by the licensee manufacturers of the engines. Wärtsilä’s share is limited to the licence fee. Our technological know-how in low-speed engines supports our Service in that business.

Wärtsilä will maintain an effective and flexible manufacturing structure, designed to cope with the variable market demand by using internal and external capacity as needed. We will increase co-operation with our partners and suppliers to ensure an optimal supply of components as demand varies. We have created a Group-wide supply management function to lead this work.

The realignment of the manufacturing and component sourcing activity closer to the growing markets in Asia is continuing.

**Financial targets**

The average growth target for corporate annual sales is 6–7%. The growth target of the Ship Power and Power Plants businesses is 4% and for the Service business 10–15%. The operating profit target (EBITA) of Wärtsilä is 8% of net sales over the cycle.

Strong financial performance forms a basis for corporate environmental and social responsibility and for contribution to prosperity in the local communities in which Wärtsilä operates.

**Dividend policy**

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

**Environmental targets**

We strive to improve the environmental performance of our solutions and services by maintaining technology leadership, exploring new technologies and co-operating with our customers and stakeholders. Our primary target is to offer
power solutions with high efficiency and low environmental load.

Social targets – good corporate citizenship

Wärtsilä’s intention is to act as a good corporate citizen wherever the company is active. This is accomplished through open communication and good relationships with its local stakeholders. The Wärtsilä code of conduct is the main principle in conducting business and relations with our stakeholders. See Code of Conduct page 34.

Wärtsilä strives to offer its employees an interesting and exciting workplace where openness, respect, trust and equal opportunities prevail. The company wants to create a learning framework that enables its employees to continuously develop their skills and competences both on the job and through separate in-house and external training programmes.

The company also endeavours to offer hazard-free workplaces to its employees, contractors and others working in different parts of the corporation by applying high standards of occupational health and safety. The Group applies only such product development and manufacturing processes and quality assurance methods that minimize health and safety risks related to the use of its products and services.

Suppliers are an important part of the total supply chain of the Group. Therefore Wärtsilä gives considerable attention to the long-term development of common processes with its suppliers. This includes common design activities, joint development of manufacturing processes, and efficient information exchange guided by long-term agreements.

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 is making planned progress.
- Construction of a new factory for Wärtsilä Qiyao Diesel Company Ltd (Shanghai), a 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 with Mitsubishi Heavy Industries Ltd (MHI) in the field of 2-stroke diesel engines.
- Two new Wärtsilä RT-flex engines will be designed in co-operation with Hyundai Heavy Industries Co. Ltd. (HHI) and 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 operating in arctic waters.
- The transfer of the DEUTZ marine engine service business from the German company DEUTZ AG to Wärtsilä. 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 early in the year. In the USA, Wärtsilä acquired in November a company specialized in the service of automation and control systems for diesel and gas engines. A service company was established in Hong Kong.
Dear shareholders,

2005 was the best year so far in Wärtsilä's history under the company’s current operations. Comparable net sales rose 13 per cent and the operating profit 130 per cent. As planned, we reached the profitability target we set in spring 2003 and our order books at the end of the year were at a record level, almost three billion euros. The entire organization has reason to be proud of this achievement, the result of our systematic efforts to improve profitability in all sectors. Above all, it is a result of the confidence our customers around the world place in our products and services. The company’s financial success also benefits our customers.

Strong economic growth drives demand

Global economic growth remained relatively lively throughout the year. World trade grew faster than economic development in general, over six per cent. This is increasing transport needs and is the main reason underlying the strong demand in the shipbuilding industry in the past few years. Order books at the world’s shipyards were still at record levels at the year end. Although new orders for tonnage began to decline during the year, the number of orders for new-buildings continued at a record pace. The distribution of new ship orders by type of vessel suited Wärtsilä’s offering.

Strong economic growth also raises the need for electricity, a trend of particular importance in the newly industrializing countries. Global growth in electricity demand has exceeded the long-term two per cent growth rate for several years in succession. The increased need for electricity was widely reflected in good demand for power plants, a trend also evident in Wärtsilä’s order book.
High energy price calls for energy efficiency
The high price of oil and gas, along with growing concern over the detrimental effects of carbon dioxide emissions, are steering energy users towards more efficient solutions. This is a cornerstone of Wärtsilä's strategy. Of all the technologies commercially available today, the reciprocating piston engine converts oil or gas into mechanical or electrical energy in the most efficient way; in other words, with the lowest fuel consumption and therefore the lowest carbon dioxide emissions. We expect oil to maintain its central role as an energy source for at least the next 25–30 years, but its use will need greater than ever control. At the same time the popularity of gas is growing substantially.

For years the thrust of Wärtsilä's research and development efforts has focused on the energy efficiency of the engines and on emissions control. Supported by Wärtsilä's leading global position in the design and manufacture of marine propulsion systems, we can contribute directly to the development of more economical and environmentally sound transportation solutions.

As the use of gas becomes more widespread both on land and at sea, we are positioned to offer the same efficient engine solutions for gas applications. These engines, already tested in onshore power plants, increased their foothold in the marine sector during 2005. Indeed, we regard the adoption of our propulsion systems for new-generation LNG carriers as one of the most significant technical breakthroughs in the entire shipbuilding industry last year. It is evident that gas applications will gradually become more prevalent in other types of vessel in addition to LNG tankers.

Lifecycle thinking guides investments
Wärtsilä is the technology leader in its field. That means we are continuously bringing new innovations to market that will benefit our customers and the environment. At the same time, though, our responsibilities and business development capabilities increasingly cover the equipment already in use by our customers.

Our Service business represented 43 per cent of Wärtsilä's total net sales for the year. More than 7,200 of Wärtsilä's 12,000 employees now work in various service-related functions. We will further boost this business by taking service responsibility for increasingly large parts of our customers' operations. Once again we will commit a significant share of investment expenditure in 2006 to further broadening the geographical coverage of our service network and its competences.

Factories at full load
One result of our strong order books is that both our engine and propeller factories will be fully loaded well into 2007. Concentrating engine production at two main units has worked out very well. This also puts us in a stronger position to face periods of lower demand in the future. The new propeller factories in China have developed as planned. Auxiliary engine manufacture at the factory currently being built in Shanghai will get under way in early summer 2006.

Strong overall demand has led to temporary capacity shortages in certain supplier areas. Since we consider that demand will remain vigorous, we believe that our delivery volumes in 2007 will be even higher than in 2006. This makes ensuring a sufficient and correctly priced component volume in future years one of the most important challenges for our manufacturing and sourcing organization this year.

Focus on core expertise
Our evolution, which has taken several years, from a group with diversified industrial interests in-

to a unified corporation supplying power solutions was concluded in spring last year. We have signed a contract for our 12,000 machines installed in our customers' networks.

Strong demand creates confidence in continued growth
Demand in the marine and onshore power plant markets looks likely to remain positive from Wärtsilä's perspective for at least the first half of the current year. The long-term growth target of our Service business is 10–15 per cent. Based on these assumptions and our good order books, we believe that our net sales will increase this year by as much as 20 per cent. The profitability level reached in 2005 will remain. Net sales is expected to show further growth in 2007.

I would like to thank our customers, who once again demonstrated their confidence in our products during the eventful year now behind us. My thanks also go to all our employees for their significant efforts. And finally, I also extend my gratitude to our shareholders for their continued interest in our company.
Italy, Trieste

>> Wärtsilä has 1,150 employees in Italy. Wärtsilä’s factory in Trieste, close to Fincantieri’s Montalcone shipyard, manufactures several types of engine.

Fincantieri is one of the world’s leading shipbuilders. Over the decades Wärtsilä has supplied a total of 358 engines for installation in vessels built by Fincantieri.
Wärtsilä is the leading provider of ship machinery, propulsion and manoeuvring solutions

Wärtsilä supplies engines and generating sets, reduction gears, propulsion equipment, control systems and sealing solutions for all types of vessels and offshore applications. Wärtsilä is well represented in all the major segments of shipping with its highly valued machinery and manoeuvring solutions.

Main products and end-customer segments

Customers can rely on Wärtsilä’s support throughout the lifecycle of their vessels and platforms since Wärtsilä maintains a close presence through its extensive sales and service network all over the world. Wärtsilä is known and respected for its long heritage in the design and manufacture of technically advanced engines. Over the years Wärtsilä has continuously enhanced its product coverage and knowledge both in engines and in propulsion equipment, and also in system integration.

Wärtsilä’s main product areas are:
- 4-stroke diesel and gas engines
- 2-stroke diesel engines
- Propulsors
- Seals and bearings
- Solutions

Wärtsilä Ship Power customers fall into two main groups: shipyards and shipowners. The relationship between the supplier, shipyard and shipowner is a challenging one. As an equipment and solution supplier Wärtsilä has to meet the requirements of the shipyard with cost-competitive, easy-to-assemble solutions supplied on time. On the other hand, as a lifecycle partner Wärtsilä also has to satisfy the needs of shipowners and operators by delivering reliable, operationally economical and environmentally sound solutions. It is expected that, as in land-based power plants, an increasing number of larger-scope operations & maintenance contracts will be signed for ships and even entire fleets in the future.

Wärtsilä’s main market segments are:
- Seaborne transportation
  - Tankers
  - LNG carriers
  - Containerships
  - Bulk carriers
  - General cargo
- Offshore oil exploration and support
- Cruise and ferry
- Naval and governmental
- Special vessels
Wärtsilä provides ship machinery and propulsion and manoeuvring solutions customized for all types of marine vessels and offshore applications. Wärtsilä is committed to providing full customer support throughout the entire process from design to construction and operation of a vessel.

Key market drivers
The shipping industry has been boosted by various factors in recent years. Strong development of the Chinese economy is consuming more raw materials and fuel, which is thus requiring more transport capacity. Demand for shipping capacity has lately exceeded supply and, although China has entered the industry as a major shipbuilding nation, all the available capacity is reserved, which is causing peaking freight rates.

Low interest rates have encouraged shipowners to make new-build investments. Increased demand for energy has pushed the oil price to record levels, which has intensified the exploration of both new oil resources and natural gas. A large number of merchant vessels are also reaching the limit of their lifetime and many investments are replacing capacity built in the 1970s.

European market development beneficial for Wärtsilä
The current boom in the shipping industry started in 2003 with high activity in large tonnage. Since then it has moved to smaller and more specialized vessels. As is well known, the geographical focus in shipbuilding today is in Asia, which represented over 80% of the tonnage ordered in 2005.

However, 2005 also brought European yards back onto the shipbuilding map, especially when measured in number of vessels; almost 30% of new orders were placed with European yards in 2005. This development has been very beneficial for Wärtsilä as its solution portfolio and reputation are ideally suited to the needs of European yards – special tonnage, and passenger and cruise vessels.

Twofold strategy for Ship Power
Besides its success in Europe, Wärtsilä has also systematically enhanced its operations and know-how on the Asian continent. Nowadays an increasing number of experienced Wärtsilä professionals are located in various Asian shipbuilding hubs and two new factories have now been ramped up to full operation and the third one will start in mid-2006. This is the latest step in widening Wärtsilä’s global reach.
The trend in shipbuilding is towards closer partnerships between suppliers and shipyards. In this area Wärtsilä has taken a major step with the signing of a strategic alliance agreement with Mitsubishi Heavy Industries to join forces in product development, production and distribution. Wärtsilä has also recently introduced two new low-speed engines that will be designed and tested in cooperation with Hyundai Heavy Industries. Moreover, Wärtsilä Ship Power is working very closely with many shipowners to be able to identify and develop solutions for their specific needs.

In its product strategy Wärtsilä Ship Power has successfully focused on the Ship Power Supplier concept. By choosing Wärtsilä as a single supplier, shipbuilders can concentrate on their core competence areas and significantly reduce the risk of interface problems compared to machinery supplied from different sources. From the shipowners’ point of view the single-supplier approach gives benefits in terms of operation and maintenance on board the ship. In this case, for example, better fuel efficiency or operating flexibility can be obtained.

The possibility to outsource an entire power and propulsion system as a package has also been recognized among the emerging shipyards as a tool to gain competitive edge when combined with low labour costs in shipbuilding. Solution packages enable them to reach the same technology level and credibility as the conventional players.

A global presence combined with an extensive product portfolio and solution engineering capabilities puts Wärtsilä in a unique position compared to other major engine and equipment providers.

**Wärtsilä’s dual-fuel engine becomes the standard**

Wärtsilä’s extensive research and development work in power solutions for LNG carriers resulted in a massive commercial breakthrough during 2005. Wärtsilä’s solution based on the dual-fuel engine has become the standard in the 150,000 m³ class of LNG carriers. Wärtsilä Ship Power currently has 88 engines on order for 22 ships. Investments in the LNG business are still in the initial phase and the trend is expected to continue for years to come.

Environmental issues have always been one of the key values in Wärtsilä’s product development. Wärtsilä’s common-rail engines, for both main and auxiliary use, have already established their position at the spearhead of environmentally sound development. In this field tightening regulations will generate an increasing amount of new investment and modification needs in the future.

**Market share increased**

Wärtsilä’s statistics for total market size and market shares in 2005 measured the total low-speed market for new orders to be 22,703 MW (24,863). Wärtsilä increased its market share in this sector from 18% to 24%. The other main players in this area recorded shares of 73% and 3%.

The total market for medium-speed main engines was 6,676 MW (3,990). Wärtsilä was the market leader in this segment with a share of 45% (34). The second and third largest companies had market shares of 24% and 18%. In medium-speed auxiliary engines the total market grew from 3,544 MW to 5,220 MW and Wärtsilä maintained its share of this market essentially unchanged at 8% (9).

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**Did you know this?**

The most powerful marine engine in the world is designed by Wärtsilä. This low-speed giant generates more than 100,000 horsepower.

Compared to conventional powering of LNG carriers, Wärtsilä’s dual-fuel solution offers lower emissions and brings significant savings in fuel consumption. This is one illustration of the importance of environmental thinking in Wärtsilä’s product development.
Singapore

>> Singapore has one of the world’s largest ports. Wärtsilä has 350 service professionals stationed in this city serving customers in both the marine and onshore power plant sectors.

Singapore is also an important maritime hub. In October 2005 Wärtsilä was awarded an order for 32 engines by Keppel FELS Ltd. These engines will power four jack-up oil drilling rigs and two semi-submersible drilling platforms.
Service

Lifecycle efficiency solutions for all markets

Wärtsilä continuously develops service solutions for all Wärtsilä engine types and power systems including older engine brands and products. 7,200 employees worldwide, including 2,500 field service engineers, maintain an installed base of 150,000 MW, or more than 16,800 installations.

Lifecycle efficiency solutions for all markets

Wärtsilä’s Service business covers the Ship Power and Power Plant markets in their entirety. Wärtsilä’s Total Service concept means delivering lifecycle efficiency solutions – the supply of products and services for an installation throughout its lifecycle. This ranges from spare parts, performance optimizers and upgrades to training, environmental solutions and full operations & maintenance agreements.

The global network and broadened service portfolio help to maintain Wärtsilä’s strong market position. Though the predominant service market is Wärtsilä’s own 150 GW installed base, the company is increasingly expanding its service offerings to include customers with other engine brands and other power solutions.

The potential of the service market is expanding in pace with the booming shipping business and the growing need for reliable decentralized power solutions. As business requirements increase and technical solutions become ever more advanced, customers are demanding full service from their global partners. In its global service network, Wärtsilä has a clear competitive edge. With service stations in more than 60 countries, Wärtsilä is well positioned as a global service partner. The range of services draws together the technical expertise of the entire organization worldwide to meet both local and global market requirements.

Excluding other manufacturers’ service networks, there are few global players in the service market – the competition is by and large local.

The service strategy not only focuses on worldwide services, tailored solutions and the development of human capital; it also calls for expansion into new markets, which is extending both the installation and the customer base. In 2005, for example, Wärtsilä acquired the installed base of DEUTZ marine engines (12,500 MW), making Wärtsilä the supplier of original spare parts and services including technical support for DEUTZ medium-speed marine engines worldwide.
Service takes care of an installation during its lifetime. Our solutions cover safety and reliability aspects, performance optimizers, modernizations and upgrades, and the environment. They range from original parts, technical support and condition-based maintenance, to complete training packages and full Operations & Maintenance agreements.

Focus where it matters
Global market drivers such as fuel price development, increasingly stringent environmental regulations, and business optimization through asset management are affecting both the shipping business and the energy sector, regardless of market.

Fuel prices drive gas conversions
Recent fuel price increases and environmental incentives are creating a clear interest in different types of fuel conversions, especially gas (SG) and dual-fuel (DF) engines. In 2005 Wärtsilä carried out a number of gas conversions, including the innovative conversion of a power plant at the Century Paper and Board Mill in Pakistan. This plant, which supplies power and heat to one of Pakistan’s largest paper and board mills, was converted from heavy fuel oil (HFO) to dual-fuel (DF) gas operation.
As is the trend in many other countries around the world, Pakistan is a booming market for gas and dual-fuel engines. As gas becomes readily available, the Pakistani government is encouraging gas-based power generation as an alternative to HFO.

**Single sourcing a worldwide trend**

The market for Operations & Maintenance (O&M) and Long-Term Service Agreements (LTSA) is relatively unexploited, and the demand for outsourcing is increasing. Wärtsilä’s strategy is substantial growth in the O&M and LTSA business, especially in the Marine sector where Wärtsilä is presently developing new concepts to meet the requirements of the market. Among target markets are LNG vessels.

In 2005 Wärtsilä signed its first Global Maintenance and Support Customer Agreement for ocean-going vessels with Reederei Blue Star GmbH in Hamburg, Germany. The agreement covers a substantial part of the maintenance and operational support of a number of ships in the Blue Star fleet and fits the specific requirements of vessels that are trading globally in liner service.

Wärtsilä will provide regular inspections, all maintenance planning and work, as well as contract management and global coordination of these activities. Applying modern remote monitoring technologies and Condition-Based Maintenance will secure reliability and long-term savings.

Wärtsilä’s O&M services are provided at fixed agreement fees, which offers additional customer benefits such as predictability of operating costs and additional performance guarantees.

**Value-adding services – a strategic tool**

The CBM (Condition-Based Maintenance) service is progressively becoming a strategically important service tool for Wärtsilä, which today has about 500 engines connected to this system. Online services, which in addition to online spares ordering and interactive manuals include CBM reports, are showing an upward trend with volumes more than tripling in 2005.

Another strategically important tool is training. The Wärtsilä Land & Sea Academy opened new Maritime Training Centres in the Philippines and in Finland in response to globally increasing demand for seafarer training courses and the shortage of proficient officers.

**Resource competence and manpower further strengthened**

As in previous years, the trend in the Field Service business has been the major development of resource competences and their global availability, in particular for gas and dual-fuel installations.

Wärtsilä continued to acquire and establish new service companies to extend the availability of ship service products and to expand its presence in the world’s main shipping hubs, where Wärtsilä now has a strong position in the 2-stroke low-speed engine service market.

Did you know this?

The year round, day and night, 2,200 shipments per week representing some 175 tonnes – using all means of transportation, sea, road, air courier – Wärtsilä ensures that components get where they’re needed fast.
USA, Nevada

>> Barrick is a leading international gold mining company which operates all over the world – including the Barrick Goldstrike mine deep in the middle of Nevada, USA.

The power plant of 14 reciprocating gas-fired Wärtsilä 20V34SG engines with a total net output of 116 megawatts was delivered in 2005, reliably and on time.
Wärtsilä power plants offer unique alternatives to traditional energy solutions

Wärtsilä is a leading supplier of power plants for the decentralized power generation market. Wärtsilä offers power plant solutions based on oil, gas and dual-fuel engines, as well as biomass-fuelled heat and power plants. The main customer groups are industrial manufacturers, utilities and municipalities, independent power producers, and the oil and gas industry. At the end of 2005 Wärtsilä had delivered a total of 34,000 MW of base and intermediate load power plants in the power range of 1–300 MWe.

Main products
The main product groups, based on medium-speed engines, are:
• Heavy fuel and crude oil power plants 1–300 MW
• Gas power plants 3.5–300 MW
• Light fuel oil power plants 3.5–300 MW
• Prime movers for oil and gas industry

Wärtsilä offers Biopower plants and heating plants based on biofuels in the power range of 1–5 MWe.

Market size and demand
In 2005 the total global market for oil and gas power plants in Wärtsilä’s power range was 10,400 MW. In this market 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. More than half of this growth came from increased sales of power plants based on the Wärtsilä 20W34SG gas engines. Orders for heavy fuel oil power plants returned to a more normal level (1,921 MW) after the record high year in 2004 (2,533 MW).

The total market for biopower plants under 5 MW in Northern Europe, i.e. in Wärtsilä’s target market, was 30 (22) MWe in 2005. Demand was particularly strong in Sweden.

Market share, competitors and competitive edge
With its strong global presence and product range, Wärtsilä is the undisputed global market leader in heavy fuel and crude oil power plants. Wärtsilä’s share of total orders placed in 2005 was 44%, marking a return to a more normal level from the record high of 71% in the previous year. Competition comes from the large diesel engine manufacturers.

Wärtsilä’s gas power plant portfolio is unique in the industry in providing a new, viable and larger-
Wärtsilä gas power plants can be optimized for a wide range of loads and offer very high operational flexibility and efficiency in any operation mode, from baseload to peaking.

Wärtsilä has changed its method of calculating power plant market shares. In the gas power plant market, Wärtsilä has added gas turbine power plants, a competing technology, to its calculation of market shares. Conversely the previously included high-speed gas engines have been left out because Wärtsilä does not manufacture them. As a result of these changes Wärtsilä’s market share of the gas power plant market is lower than earlier.

In heavy fuel oil power plants, Wärtsilä has added competing gas turbine power plants operating on heavy fuel oil alongside engine-operated power plants. For this reason its market share has decreased.

In power plants running on light fuel oil, the market share figures used to include all types of power plants. Since Wärtsilä does not offer high speed engine based plants with outputs below 3.5 MW, its target market covers power plants powered by larger engines. Consequently Wärtsilä’s share of the light fuel oil market has increased.

Target markets per fuel type 2001 – 2005

Strategy and targets
The strategy of Wärtsilä’s Power Plants business has three focus areas.

In the heavy fuel oil market the company strives to maintain its leading position by actively monitoring trends through its global network. Resources are flexibly transferred to match changes in the market. The product portfolio is further streamlined by focusing on volume products.

Secondly, Wärtsilä is looking for growth in the gas power plant segment in developing countries where gas is becoming available and Wärtsilä has a strong geographical presence. Growth opportunities are also available in the western world for peaking power plant applications and in the oil and gas industry. Wärtsilä serves this market with new products as well as with conversions of existing oil power plants into gas plants.

Thirdly, Wärtsilä is focusing on the biopower sector in Europe, which has clear potential for growth. Wärtsilä is continuously improving its internal efficiency and competences by gaining a deeper understanding of its customers’ businesses, and by focusing on value creation and first-time quality. The product portfolio will be further developed emphasizing more modular global products.

Market trends and prospects
Soaring crude oil prices shook the market in 2005. This raised the price of electricity generated using oil and, after a certain delay, the price of electricity produced with natural gas. On the other hand, higher oil prices have increased the competitiveness of heavy fuel oil and gas power plants compared to light fuel oil plants. Crude oil prices are expected to remain high.

In the heavy fuel oil market largely dominated by Wärtsilä – islands and remote areas mainly in the developing world – demand will remain steady as there are no real alternatives available for cost-efficient and environmentally friendly power generation. Electricity consumption growth rates are typically fairly high in these countries and regions, and more production capacity is needed continuously. The excellent efficiency of Wärtsilä’s products gives the company a strengthening competitive edge in these market conditions.

As the oil and gas industry invests increasingly in LNG vessels and terminals and in gas pipelines, power plant demand also in developing countries is gradually, region by region, turning towards gas. This offers Wärtsilä the opportunity to maintain and even increase its current business volume and high market share in this traditional core market while raising its market share in gas power plants. Examples were seen in 2005 when Wärtsilä sold several large natural gas plants to India, Azerbaijan, Turkey and Pakistan. Also the conversion of heavy fuel oil power plants to gas operation offers considerable potential for Wärtsilä.

New markets in the industrialized world
In the industrialized world, especially in the USA, a new market is emerging in so-called ancillary services, which regulate capacity and load. These services used to be provided by the public electricity utilities and included in their tariffs. However, since supplying the services involves a cost, such services will require their own specific market mechanisms and pricing. This will make it economically more interesting to install peaking and load management capacity with products offering fast starting and loading, high part-load efficiency and low emissions – all features of Wärtsilä reciprocating engine plants.

Emissions trading started in Europe during 2005. Environmental concerns are having a major impact on the electricity business by bringing about a substantial increase in electricity prices. The EU governments are introducing schemes to boost renewable forms of energy and have developed different ways to subsidize wind power and bio-power. This trend will continue and even strengthen, making Wärtsilä’s clean gas and biopower plants more competitive likewise.

The oil and gas industry is booming. Many investments are under way in oil and gas exploration and in the construction of pipelines to transport these valuable products to shorelines from remote fields. As crude oil prices are expected to remain high, equipment sales will stay high as well.

All in all, Wärtsilä holds a strong position in its power plant markets and has growth potential in several sectors.

Did you know this?

Enjoying a nice dinner in the lights of St. Maarten?
Wärtsilä’s market share of all power plants sold in the Caribbean since 2000 is roughly 80%.

When completed, Wärtsilä’s gas power plant in Azerbaijan will represent 10% of the total installed capacity in the country.
Wärtsilä has transformed its manufacturing operation from a focused factory concept to a more flexible multi-engine delivery centre model. Manufacturing of 4-stroke engines is now concentrated in two delivery centres: one in Vaasa, Finland, and one in Trieste, Italy. Both are designed to produce several engine types to leverage economies of scale and to meet today’s dynamic market demands. Flexibility in production volumes is supported by a well balanced supplier network, which is under continuous development. The current set-up enables considerable flexibility with opportunities for growth.

Focus on assembly and testing
The manufacturing process is focused mainly on customized product-engineered solutions, assembly and testing of engines. Component manufacturing is partly handled in-house and partly by a network of suppliers primarily in Europe and Asia. Strong emphasis is being given to further development of the emerging supplier base to optimize efficiency across the value chain. Key focus areas in the manufacturing process are efficient material logistics and the quality delivered to end-customers.

Deliveries increased 26% in 2005
Wärtsilä factories delivered 26% more volume during 2005 than in 2004. Manufacturing of the W20, W32 and W34SG engines takes place in Vaasa, while the W26, W38, W46, W50DF, ZA40 and W64 engines are produced in Trieste. The assembly factory in Bermeo, Spain, functions as a back-up facility for both Trieste and Vaasa. A new assembly factory will be opened in mid-2006 in Shanghai, China, focusing on the Auxpac generating sets. Called Wärtsilä Qiyao Diesel Company Ltd, this company is a joint venture with Shanghai Marine Engine Research Institute (SMDERI), an affiliate of China Shipbuilding Industry Corporation (CSIS). The first product will be the Wärtsilä Auxpac 20 and full production is expected from 2007 onwards.

Manufacturing of Wärtsilä 2-stroke engines takes place primarily in Asia under the responsibility of bigger shipyards qualified as engine makers and licensed by Wärtsilä. This business model offers simplified logistics for shipyards due to the large size of the engines.
Technology leadership is a key element in Wärtsilä’s mission and strategy. It makes a major contribution to ensuring that Wärtsilä products best suit market requirements.

There is a continuous focus on technologies for improving efficiency and reducing air-polluting exhaust emissions in preparation for future emission control regulations. In its propulsion business Wärtsilä is continuously focusing on technologies for increasing propulsion efficiency and on environmentally friendly sealing solutions for the containment of oils.

Three new engine products illustrate the main activities of R&D in 2005. The new Wärtsilä 46F is a more compact model of the highly successful Wärtsilä 46 engine type, making optimum use of common-rail fuel injection, modular systems and new monitoring technology (CBM).

The Wärtsilä RT-flex50 is a low-speed engine tailor-made for ships such as tankers and bulk carriers in the Handymax to Panamax sizes. It incorporates the latest electronically controlled common-rail systems for both fuel injection and valve actuation.

Development has also begun of a new family of 820 bore low-speed engines, which will bring similar benefits to Panamax containerships and the largest tankers. Two engine types are being designed with different strokes on a platform basis to ensure maximum commonality of parts for efficiencies in manufacturing and parts supply.

The organization of the Wärtsilä Engine Division has been rationalized with the establishment of a unified Research & Development unit, Global R&D, for both 4- and 2-stroke engines. This is already generating increased synergy through a number of joint projects and a single unit for Engine Management & Automation. The Global R&D organization includes around 400 people working on 4-stroke and 2-stroke engine activities.

Several successful R&D projects were undertaken in the propulsion business. In propulsors the project to develop a new controllable pitch propeller hub, the E-Hub, was completed. This new hub provides higher power density and will benefit Ropax and high-speed applications. A new “pulling” thruster was developed completing the steerable thruster portfolio. The HR nozzle was developed giving efficiency improvements for higher speed applications. A new mid-range gearbox was developed.

Focus in product reliability and customer support
During 2006, R&D will focus strongly on product reliability and customer assistance support. In addition, competences will be built up in Wärtsilä’s core knowledge areas, the central subject of which is combustion as this is immediately related to fuel supply, air supply, and control and monitoring. Following combustion, the other core knowledge areas are piston-running behaviour, mechanics and dynamics.

Wärtsilä propulsion will focus on higher efficiency of smaller fixed pitch propellers. A new water jet series will be developed to give higher efficiency in a more compact unit. A new water lubricated bearing is also to be developed to enhance package offerings for water lubricated seals. Wärtsilä will increase its R&D spending in 2006.

Wärtsilä is developing fuel cell technology for decentralized power generation and marine applications. Today the company’s R&D is focusing on developing an SOFC (solid oxide fuel cell) system. The goal of this programme is to offer Wärtsilä’s customers highly efficient, environmentally clean and silent solutions for generating energy.
HUMAN RESOURCES

Results through goal-oriented leadership, collaboration and communication

Fundamental to a company’s profitable operation is the need to continuously develop the professional skills and competences of the employees, and to manage teams and individuals in line with the set targets. Accordingly, these are also central goals of Wärtsilä’s human resources strategy. Our task is to ensure that each employee fully understands the goals they have been set, that they receive regular feedback on their performance and that they have the opportunity for personal development in their work.

2005 in brief
At the end of 2005 Wärtsilä had 12,008 employees in over 60 countries. The largest increase in the number of employees, over 800 people, took place in the Service business where both acquisitions and recruiting increased Service’s global coverage and competences. The most significant structural change was related to Imatra Steel. The entire workforce of 1,279 people was transferred to Ovako in May. Other structural changes and personnel issues are treated in more detail in the social responsibility section of the Sustainability Report.

Development discussions
Annual development discussions are a vital management tool in the company. They are used to set personal work targets, to assess how well these targets have been achieved, and to draw up personal development plans.

Development discussions also serve as a means for communicating the strategy and goals of each employee’s unit, Wärtsilä’s businesses, and the whole Group, so that everyone understands how their work contributes to reaching the company’s goals.

Wärtsilä’s core values – Energy, Excellence and Excitement – create a platform for building the principles that guide both the company’s operations and management of its employees. Making things happen, performance that excels, openness, and respect for other people and their work, describe the way we work.

Enhancing competences through training, job rotation and projects
A cornerstone of successful business operations is continuous development of employees’ knowledge through training, job rotation and project tasks. Wärtsilä divides the framework for personnel development and the content of its training schemes into three main categories: development of management skills and the role of supervisors, development of the general skills and knowledge needed in the organization today and in the future, and development of professional competences for specific operations and tasks.

Wärtsilä’s training organization arranges some 32,000 training and development days annually. The training and development plans are based on both the main competence areas derived from the business strategies, and on the individual development plans agreed in the development discussions. Wärtsilä also encourages its employees to engage actively in self-development by making self-study materials and ideas available to its personnel.

Nine senior and middle management training programmes as well as dozens of local and unit-
specific supervisor training courses, were held during 2005. The company’s top management takes an active role in planning and implementing the senior management training courses.

Rewards based on targeted performance and business success
Wärtsilä encourages, motivates and rewards its employees through several reward systems. These take account of both the good performance of its employees and of the success of the company as a whole. In addition to the basic salary, rewards typically cover either a bonus tied to individual or corporate goals or various bonuses based on results or profits. Rewards are also local in nature bearing in mind the requirements of local legislation and agreements and the competitiveness of the rewards and other benefits with respect to the local market. Personnel salaries are reviewed annually and take into account the difficulty of the individual’s work, personal performance, the competence required for the work and experience.

The support and recognition given by supervisors and colleagues is essential to building a good working atmosphere and encouraging people to work together effectively and thus perform better.

Employee satisfaction survey determines development points
Wärtsilä conducted a Group-wide employee satisfaction survey in December 2004. The results of the survey were announced internally in spring 2005 and development plans based on them were drawn up – both for Wärtsilä as a whole and for its individual units.

Strengthening strategy communication, a development issue covering the whole Group, was addressed by drawing up a plan covering both the Group’s common functions and its local units. The aim was to ensure all Wärtsilä employees understand the Group’s business strategy and the goals of its individual units. To test if this was the case, employees were then asked to give their feedback. This showed that personnel had indeed gained a better understanding of the business strategy and goals, and also that there is a continuing need to improve strategy and supervisor communication further.

Many other common development issues have involved various aspects of communication: further enhancements to the company’s communication channels, the easy availability of the knowledge needed in work, and improvements to the content and quality of the development discussions.

The next employee satisfaction survey will be conducted in January 2006.

Challenges and priorities in 2006
During 2006 our aim is to further strengthen performance management and the feedback process by expanding development discussions to cover even more of the company’s personnel worldwide. Besides quantitative coverage we also require improvements to the quality and content of these discussions.

We will also use various means to systematically develop the know-how in different technologies essential to our business operations in the areas of customer and technical service. Developing and unifying our personnel management practice and guidelines globally will strengthen our internal team spirit as well as Wärtsilä’s external image as an employer. An updated online recruitment system will give greater visibility to the opportunities offered by Wärtsilä to jobseekers while allowing us to encourage job rotation by bringing job vacancies to people’s attention within the company.

Communication, the easier availability and better quality of information, and the development of online services for personnel and supervisors is another important part of personnel administration’s action plan for the year.

We will use the results of the 2006 employee satisfaction survey to review the impact of development projects already started and to set development priorities for the years ahead.
The Wärtsilä Corporation shares are traded on the main list of the Helsinki Stock Exchange. Wärtsilä’s shares are also traded on the SEAQ International (Stock Exchange Automatic Quotation) system in London. The company has two share series of which the trading codes are WRTAV for the Series A shares and WRTBV for the B series. The A shares carry ten (10) votes per share and the B shares carry one (1) vote per share at general meetings. The nominal value of the share is EUR 3.50. All shares carry equal dividend rights. The company’s paid up and registered share capital totals almost EUR 329 million.

Wärtsilä’s shares in 2005
Trading in Wärtsilä Corporation shares was lively during the review period and grew substantially in relation to the previous period. Wärtsilä’s share prices developed favourably. The price of the B share rose from 15.95 at the start of the year to 25.00 at the end of the year. The highest quotation of Wärtsilä’s B share was EUR 27.09 and the lowest 15.68. The share price on 31 December 2005 was 25.00. The trading volume of the B share was approximately 80 million shares. The total turnover of B shares in 2005 was EUR 1,869 (902) million and of A shares approximately EUR 3.2 (2.2) million. About 12% of the total were traded on the SEAQ system in London during 2005.

Shareholders
Wärtsilä has approximately 25,000 shareholders. The growth in foreign ownership continued during 2005 and approximately 24% of the shares were held by foreign shareholders at the end of the period compared to 16% in the previous period. Private domestic investors held some 25%.

Dividend and dividend policy
Wärtsilä’s target is to pay a dividend equivalent to 50% of operational earnings per share. By operational earnings the company means operating income per share less non-recurring items.

The Board of Directors will propose a dividend of EUR 0.90 per share and an extra dividend of EUR 0.60 per share on the financial result in 2005 to the Annual General Meeting on 15 March 2006.

Wärtsilä and SRI
Wärtsilä is included in the Kempen/SNS Smaller Europe SRI Index and the Ethibel Investment Register. The Ethibel Investment Register is used as the basis for Socially Responsible Investment (SRI) products by a growing number of European banks, fund managers and institutional investors. Membership in the Kempen/SNS smaller Europe SRI Index is available only to those companies with the...
very highest standards and practice in the three areas of business ethics, human resources and the environment.

Wärtsilä’s Investor Relations

Wärtsilä’s investor relations activities aim to support the true and fair development of the Wärtsilä share price by informing the capital markets about Wärtsilä’s strategies, performance and business environment in a way that will give them the correct picture about Wärtsilä as an investment target.

In its relations with the capital markets Wärtsilä seeks to strengthen awareness of the company as an investment alternative, to increase interest in itself among existing and potential investors, and to generate added value for its shareholders.

The main target groups are financial analysts, investors and shareholders.

In conjunction with the publication of its annual and interim results Wärtsilä holds conferences for investors, analysts and the media. The company’s top management regularly meets investors and analysts in Europe and the USA. Wärtsilä arranges Capital Markets Days for analysts and fund managers. In Finland the company meets investors at investor fairs and other events targeted at retail investors.

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.

Ownership structure according to shares 31 December 2005

- Private corporations 20.5% (25.0)
- Banks and insurance companies 7.7% (7.5)
- Public sector entities 8.4% (9.1)
- Non-profit organizations 14.8% (15.8)
- Households 24.6% (26.8)
- Outside Finland or nominee registered 24.1% (15.7)

Ownership structure according to votes 31 December 2005

- Private corporations 33.5% (31.3)
- Banks and insurance companies 9.0% (11.3)
- Public sector entities 7.6% (8.5)
- Non-profit organizations 20.7% (21.3)
- Households 21.0% (22.3)
- Outside Finland or nominee registered 8.2% (5.4)

Investor Relations activities in 2005

During 2005 Wärtsilä published a financial statement bulletin on its result for 2004, an annual report 2004 and three interim reports. In relation to each result publication the company also held a conference for domestic investors, analysts and the financial media. The conference was simultaneously an international teleconference and internet webcast.

During 2005 the company met around 100 institutional investors in Finland, in the main financial centres of Europe and the USA. In the spring Wärtsilä arranged a capital markets day in Trieste, Italy, in which approximately 30 financial analysts and fund managers participated. In November the company was present at the Sijoitus / Invest Fair in Helsinki and met domestic investors at local investment evenings arranged by the Finnish Foundation for Share Promotion.

Communications policy and financial communications

Wärtsilä discloses information on its goals, financial position and business operations in an open, timely, truthful and systematic manner to enable stakeholders to form a true and fair view of the company. Wärtsilä’s communications activities comprise internal and external communications and investor relations.

Wärtsilä publishes stock exchange releases and stock exchange announcements in accordance with guidelines of the Helsinki Stock Exchanges. Furthermore Wärtsilä publishes general press releases and trade press releases. Wärtsilä’s subsidiaries publish press releases with local relevance as required. Stock exchange releases give the information on news that could affect the share price. Stock exchange announcements are releases of a technical nature. Press releases provide information on business related
Key figures for Wärtsilä shares

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<th>IFRS</th>
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<tr>
<td>Earnings per share (EPS)</td>
<td>1.80</td>
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<td>9.22</td>
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1 Proposal of the Board of Directors

Contact information

Relations with the company’s investors and analysts are handled by Ms Joséphine Ramsay.

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news or other news of general interest to Wärtsilä stakeholders. Releases to the trade press provide more detailed information on Wärtsilä’s products and technology.

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

The company maintains comprehensive investor relations pages at its website www.wartsila.com. These are published with identical content in Finnish, Swedish and English.
**Annual summary of stock exchange releases in 2005**

13.01.2005 Wärtsilä will acquire DEUTZ marine engine service business

17.01.2005 Wärtsilä establishing thruster production plant in China

19.01.2005 Preliminary information on Wärtsilä’s 2004 result – Fourth-quarter performance good

31.01.2005 Range of marine reduction gears extended, production in India starts

03.02.2005 Wärtsilä’s profitability improved, order book on record level

17.02.2005 Wärtsilä, Rautaruukki and SKF to merge long steel businesses

03.03.2005 Trading begins in Wärtsilä 2001 warrants

10.03.2005 Proposal for composition of Wärtsilä’s Board of Directors

18.03.2005 Financial information for 2004 according to IFRS standards

21.03.2005 Annual General Meeting

21.03.2005 Order intake and order book have strengthened in early 2005

31.03.2005 Wärtsilä - DEUTZ AG deal confirmed – DEUTZ marine engine service to Wärtsilä

12.04.2005 Wärtsilä wins order for 24 engines for LNG carriers in Korea

19.04.2005 Production operation in France to Mitsubishi Heavy Industries

21.04.2005 Wärtsilä And Shanghai Marine Diesel Engine Research Institute sign joint venture agreement on auxiliary engine production in China

22.04.2005 A definitive agreement to merge long steel businesses signed

29.04.2005 Juha Kytölä appointed Executive Vice President of Wärtsilä Finland Oy, Wärtsilä’s largest subsidiary

04.05.2005 European Commission approval to merge long steel businesses

04.05.2005 Interim report January – March 2005

10.05.2005 Wärtsilä wins power plant order in Brazil

21.05.2005 Wärtsilä And Shanghai Marine Diesel Engine Research Institute sign joint venture agreement on auxiliary engine production in China

22.05.2005 A definitive agreement to merge long steel businesses signed

29.05.2005 Juha Kytölä appointed Executive Vice President of Wärtsilä Finland Oy, Wärtsilä’s largest subsidiary

04.06.2005 European Commission approval to merge long steel businesses

04.06.2005 Interim report January – March 2005

10.06.2005 Wärtsilä selected to supply five gas power plants to Azerbaijan

27.06.2005 Wärtsilä employee innocent

31.06.2005 Net sales of Power Businesses will grow approx. 15%, profitability around 8% this year

05.07.2005 Interim Report January – June 2005

07.08.2005 Negotiations on supply of five gas power plants to Azerbaijan proceed

28.09.2005 Strategic alliance between Wärtsilä and Mitsubishi Heavy Industries in two-stroke engines

10.10.2005 Wärtsilä wins power plant order in Azerbaijan

28.10.2005 Wärtsilä’s power plant orders in Azerbaijan confirmed

02.12.2005 Wärtsilä power service acquisition in the US closed

**Traded shares/month 2001 – 2005**

**Earnings per share, Dividend per share**

**Analyst coverage**

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:

<table>
<thead>
<tr>
<th>Broker/Analyst</th>
<th>Contact Person</th>
<th>Phone Number</th>
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Risk management principles
Risk management in Wärtsilä is a continuous process of analysing and managing all the opportunities, threats and risks faced by the company to achieve its goals and to ensure the company remains a going concern. The basis for risk management is the quality of Wärtsilä’s operations and products, and the continuous, systematic loss-prevention work at all the levels of the Group on the principle that “everybody is responsible”. In the long term this is the only way to reduce the total risk costs.

The Wärtsilä Businesses are responsible for their operational risks and for mitigating and covering them. The risk management function is subordinate to Group Treasury, which reports to the CFO. It reviews the business risk profile, prepares the risk management policy, and develops global and local insurance schemes with insurance companies and brokers. The risk management policy is endorsed by the Board of Directors.

OPERATIONAL RISKS

General
A risk assessment is performed in all the major units every second year. A wider-ranging systematic update of operational risks was conducted during 2005 covering all Wärtsilä’s Businesses and its manufacturing operations. This assessment examined the following risks: competition and price risk, supplier and subcontractor risk, customer risk, political and legal risk, environmental risk, product and product liability risk, and property risk. The results of this risk assessment will be applied as thoroughly as possible and will be examined by the Business boards and by Wärtsilä’s Board of Management according to a predetermined schedule. The company is also developing a

WÄRTSILÄ’S RISK MANAGEMENT ORGANIZATION 2005

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<th>Risks</th>
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<td>Product liability and safety</td>
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<td>Data security risks</td>
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<td>Environmental management system (ISO 14001)</td>
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<td>Hazard indemnity and third-party risks</td>
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<td>Reputation risk</td>
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<td>All Wärtsilä employees</td>
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* The policies and guidelines are described in the Group’s internal Corporate Manual.
system of continuous risk reporting in which each main risk has been assigned its own person responsible for that risk.

Customer risk
Roughly three-quarters of global shipbuilding now takes place in Asia. Wärtsilä's Ship Power Business has responded to this shift by setting up new manufacturing units in China and India. Ship Power sells its products to shipyards but also markets them to shipowners. Consolidation is taking place among shipowners; the size of both orders and ship series is increasing, and competition is expected to grow more intense.

Wärtsilä's Service Business has expanded both through acquisitions and organically. The strong business volumes of Wärtsilä's customers have further boosted service sales. Power plant sales are distributed more evenly around the world than in previous years, which has reduced risks associated with specific customer groups or countries.

Competitive situation and price risk
Demand was strong in all the Businesses during 2005 and price levels either rose or remained stable. Ship Power's largest competitors are MAN and Caterpillar. No significant changes took place in the competitive situation but Wärtsilä slightly improved its market shares. On the Power Plants side, the main competitors are the same companies mentioned above as well as other technologies. Wärtsilä's market position improved, especially in the gas power plant sector. Competitiveness was affected by component availability and pressure on prices.

Supplier and subcontractor risk
The biggest challenges faced in 2005 concerned the capacity and delivery times of suppliers and subcontractors, coupled with pressure on component prices. Wärtsilä has reorganized its Supply Management function to achieve closer collaboration with its main suppliers, emphasizing long-term delivery agreements and also increasing the number of suppliers of certain critical components.

Product and product liability risk
Launching new products also involves risk. Wärtsilä seeks to control this risk by designing and manufacturing products with all due care and simulating its products to test their reliability using design methods such as FMEA. Tight delivery schedules make it all the more important to ensure the quality of the company's component suppliers. The company makes warranty provisions to cover any warranty costs that may arise after product delivery. Product liability insurance covers unexpected damage.

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

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

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

FINANCIAL RISKS

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

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

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

Foreign exchange risk
Foreign exchange exposures are monitored at the Business level and then netted and hedged at Group level. All fixed sales and purchase contracts are hedged on a net basis. The estimated future commer-
cial 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 notes to the financial statements, page 35.

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 roll-overs). Wärtsilä hedges interest rate exposure by using derivative instruments such as interest rate swaps, futures and options. Changes in the market value of these derivatives are booked direct to the Income Statement. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis.

Interest-bearing loan capital at the end of 2005 totalled EUR 403 (320) million. The average interest rate was 3.0% (3.4%) and the average re-fixing time 7 (12) months. The maturity profile, division by currency and other information on debt is provided on pages 31–32 in the Financial Review. 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 including derivatives.

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

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 on pages 31–32 in the Financial Review.

Credit risk
The responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group compa-
Major trade and project finance credit risks are minimized by transferring risks to banks, insurance companies and export credit organizations. The company’s long-term suppliers’ credits granted mainly for emerging markets totalled EUR 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 (see page 27 of the Financial Review). 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 (page 26 of the Financial Review). 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.

**COMMODITY RISK PRICE**

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

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

**Electricity**
Electricity prices have no substantial impact on Wärtsilä’s production costs.
CODE OF CONDUCT

General
Wärtsilä’s vision, mission and core values, together with its solid financial performance, form the platform for sustainable development in the Group. The Group’s Board of Management has made a strong commitment to responsible action and sustainable development by creating a sustainability strategy and by defining its targets.

In order to promote the long-term interests of the Group and its stakeholders, Wärtsilä strives to maintain the highest legal and ethical standards in its business practices as described in this code.

Compliance with law
Any and all business transactions and other activities of Wärtsilä shall be carried out strictly in compliance with applicable laws and under the requirements of good citizenship in each jurisdiction where such activities take place. This includes, but is not restricted to, laws and regulations on competition, corporate governance, taxation, financial disclosure, employee rights and environmental protection. Strong attention is paid to the integrity of each business transaction.

Openness
As part of its social responsibility engagement Wärtsilä promotes openness and transparency as well as a continuous dialogue with its stakeholders, including customers, shareholders, personnel, suppliers, the media, students and society. Surveys and regular feedback from stakeholders provide guidance for enhancing these relations. It is, however, understood that stock exchange rules and competitive considerations may lead to certain restrictions in this openness.

Wärtsilä maintains constructive co-operation with authorities and regulatory bodies both at local and international levels, e.g. with regard to the development of new environmental abatement technologies.

Respect for human rights
Wärtsilä supports and respects the protection of internationally proclaimed human rights, as defined in the United Nation’s Universal Declaration on Human Rights. Wärtsilä supports freedom from any discrimination based for example on race, nationality, sex, religion and age, and works for equal opportunities throughout the Group. Employee selection is based on personal qualification for the job in question.

Wärtsilä supports basic labour rights as stated by the International Labour Organization. In this respect the Group upholds the freedom of association and the effective recognition of the right to collective bargaining. In case these rights are restricted by local law, the company endeavours to offer personnel alternative methods to present their views. Wärtsilä does not accept any form of forced and compulsory labour or the use of child labour.
Conflicts of interest
Wärtsilä expects full loyalty from and avoidance of any conflict of interest by all its employees. Consequently, the employees of Wärtsilä must avoid situations where their personal interests may conflict with those of Wärtsilä or Wärtsilä’s stakeholders. This means, for instance, that the employees are not allowed to accept or provide a personal gift or entertainment to a stakeholder, except for a personal gift or entertainment of nominal value accepted or provided on an occasional basis. Any deviation from this shall be subject to the approval of the superior, but this approval shall not be given if it gives rise to a breach of loyalty or a conflict of interest.

No Wärtsilä company or any of its employees may solicit, accept or offer bribes or kickbacks of any kind. This includes money, benefits, services and anything of value. Such payments and favours may be considered bribery, which violates local legislation and internationally recognized principles for combating corruption and bribery.

Occupational health and safety
Wärtsilä strives to offer its employees an interesting and exciting working environment where openness, respect, trust and equal opportunities prevail. The company endeavours to create hazard-free workplaces for its employees, contractors and others working in different parts of the corporation by applying high standards of occupational health and safety. The Group also applies such product development and manufacturing processes as well as such quality assurance methods that minimize health and safety risks related to the use of its products and services.

Suppliers
Suppliers are an important and integral part of the total supply chain of the Group. They are expected to conduct their business in compliance with the same high legal, ethical, environmental and employee-related standards that Wärtsilä itself applies. Wärtsilä promotes the application of these standards among its suppliers and endeavours to monitor their actions in this respect.

Implementation
The purpose of this Code of Business Conduct is to define Wärtsilä’s ethical way of working in all its activities. The company expects both its management and its employees to comply with the standards set in the code. The code deals with the most important situations that could give rise to legal or ethical problems but must not be seen as being exclusive.

Wärtsilä takes an active approach to the application of this code and promotes its implementation through effective communication of its contents to the employees. Wärtsilä monitors the application of this code internally. The company has, for example, created compliance programmes in certain fields related to the code.

In case questions regarding interpretation or compliance with this Code of Conduct arise, the responsible manager or president of the respective Wärtsilä company should be contacted.

The application of the Code of Business Conduct will be reviewed from time to time by the Board of Management, which may decide on necessary revisions or interpretations.

Environment
Wärtsilä’s target is to develop and produce environmentally advanced solutions and services for its customers that fulfil all their vital requirements. High priority is given to developing systems and services that have low emissions and high efficiency. Efforts are taken to achieve sustainable development by means of raw materials, processes, products, wastes and emissions by making use of the latest technical advances. Wärtsilä applies certified Environment Management Systems based on ISO 14001.
Wärtsilä Corporation applies the guidelines and provisions of its Articles of Association, the Finnish Companies’ Act and the Helsinki Exchanges. Wärtsilä also complies with the Corporate Governance recommendations for public listed companies published by Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers (renamed Confederation of Finnish Industries EK since 1 January 2005). This recommendation came into effect on 1 July 2004.

**TASKS AND RESPONSIBILITIES OF GOVERNING BODIES**

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

**General meetings of shareholders**

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

A General Meeting of Wärtsilä Corporation shareholders is held at least once a year. The Annual General Meeting (AGM) must be held no later than the end of June. Under the Articles of Association, an invitation to a General Meeting must be published in at least two daily newspapers chosen by the Board of Directors and commonly distributed in Finland, no earlier than two months and no later than one week prior to the date specified in Chapter 3a, §11 of the Companies Act. Wärtsilä also publishes its invitations to General Meetings as stock exchange announcements and on its internet website. Shareholders are entitled to have any matter concerning the company’s business and falling within the scope of a General Meeting considered by the Meeting if he or she submits such a request in writing to the Board of Directors early enough for the matter to be included in the notice of meeting.

The annual General Meeting in 2005 was held on 21 March. The decisions of the AGM can be found on our website.

**The Board of Directors**

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

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

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

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

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

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

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

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

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

During 2005 the chairman of the Board was Antti Lagerros and the deputy chairman was Göran J. Ehrnrooth. The Board’s other members were Heikki Allonen, Risto Hautamäki, Jaakko Iloniemi, Bertel Langenskiöld and Matti Vuoria. All seven members of the Board were independent of the company and five of the members were independent of the owners.

In 2005 the Board of Directors convened 11 times. The average attendance of Board members at these meetings was 96%.

Information on the members of the Board of Directors and their business interests is given on page 41.

The Board’s committees

The Board of Directors annually appoints an Audit Committee, a Nomination and Compensation Committee and any other committees it considers necessary, at its constitutive meeting following the Annual General Meeting. The Board appoints the members of these committees and their chairman. The Board also has the right to remove a member from a committee. The members of each committee are appointed for the same term of office as the Board itself.

The purpose of the Board’s committees is to prepare matters to be put before the Board for its decision. The committees have no decision-making authority of their own.

In 2005 the Board appointed an Audit Committee and a Nomination and Compensation Committee. The Board has approved the written rules of procedure of these committees, the most important points of which are described below.

The Audit Committee

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

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

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

The chairman convenes the Committee at regular intervals and reports to the Board on the Committee’s meeting.
In 2005 the Audit Committee was chaired by Antti Lagerroos and its other members were Heikki Al-lonen, Risto Hautamäki and Matti Vuoria. The members of the Audit Committee are independent of the company. The Audit Committee met 5 times in 2005.

The Nomination and Compensation Committee
The Board appoints a Nomination and Compensation Committee to assist it in its work.

The Board appoints at least three of its members to sit on the Committee. The members are independent of the company.

The Nomination and Compensation Committee prepares, as necessary, the nomination of the President and CEO, the Executive Vice Presidents and the CEO’s deputy.

The Committee proposes to be put before the Board of Directors concerning the incentive schemes and compensation that apply to the President and CEO and the company’s other senior executives. The Committee communicates, as necessary, with major shareholders in matters concerning the appointment of the Board of Directors and the compensation of its members. The chairman of the Committee convenes the Committee as required. He also reports the Committee’s proposals to the Board of Directors.

In 2005 the Nomination and Compensation Committee was chaired by Antti Lagerroos and its other members were Göran J. Ehrnrooth and Jaakko Iloniemi. The Nomination and Compensation Committee met 5 times during 2005.

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

The Board of Directors appoints, if necessary, one or several executive vice presidents. The company’s executive vice presidents are its chief financial officer Raimo Lind and the head of its Ship Power business Mikael Mäkinen. Mr Lind is also the deputy to President and CEO Ole Johansson.

The Board of Management
The company’s Board of Management comprises the President and CEO, the heads of the Ship Power, Power Plants, Service Businesses and the Engine Division, the Chief Financial Officer, the Group Vice President, Technology & Environment, and the Group Vice President, Engine Division, and the Group Vice President, Legal Affairs & Human Resources. Board of Management members are appointed by the company’s Board of Directors, which also approves their remuneration and other terms of employment.

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

The heads of the businesses on the Board of Management are each responsible for the sales volumes and profitability of their respective global businesses, employing the services of the Group’s worldwide subsidiaries. Information on the members of the Board of Management, their areas of responsibility and holdings are given on page 42.

In 2005 the Board of Management met 15 times. The principal issues addressed by the Board of Management related to raising the Group’s profitability and the Group’s strategic focus, i.e. strengthening its Ship Power and Service businesses and developing their competitive-ness. The strategic priorities related to the Power Plants business were matters of central importance likewise. Developing production and key supplier relationships in an environment of growing demand, as well as increasing production flexibility were also vital concerns addressed by the Board of Management. Other important matters considered by the Board of Management included the quantitative and qualitative development of the company’s personnel and management resources, and raising the efficiency of internal global processes and working practices.

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

Information on the members of Corporate Management and their areas of responsibility is given on page 44.

Business Boards
Each business head is supported by a Business Board to consider issues including the business’s strategy and business operations. Information on the members of the Business Boards is given at www.wartsila.com.

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

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

In 2005 the members of the Board of Directors were paid the following fees: the chairman 60,000 euros, the deputy chairman 45,000 euros and each member 30,000 euros. The Board members were also paid fees for attending meetings as follows: the chairman 800 euros per meeting and the other members 400 euros per meeting. 40% of the annual fees are paid in the form of Wärtsilä shares. The fee for attendance at meetings is paid in cash.

The seven members of Wärtsilä’s Board of Directors, none of whom are employees of the company, were paid altogether 299,000 euros in cash for the financial period ended 31 December 2005. The Board’s members are not covered by the company's stock option scheme or bonus scheme.

Salaries and bonuses paid to the President and CEO and the Board of Management
The remuneration paid to the President and CEO and other members of the Board of Management, and the principles underlying it, are determined by the Board of Directors. The remuneration paid to the President and CEO and the other members of the Board of Management consists of a monthly salary and a bonus. The President and CEO and the other members of the Board of Management also have share option rights under the company's two option schemes. Information on the Wärtsilä shares and options held by the President and CEO and the other members of the Board of Management is given on page 43 and at www.wartsila.com.

The Board of Directors confirms the salary paid to President and CEO Ole Johansson as well as the terms and content of his employment contract. The President and CEO is paid a bonus in addition to his monthly salary, the terms of which are determined by the Board of Directors. The President and CEO holds share options under the company’s two option schemes. In 2005 the President and CEO’s remuneration, including benefits in kind and bonuses, totalled 845,205 euros. The President and CEO is eligible to take retirement on reaching the age of sixty and his retirement pension is 60% of his statutory (TEL) earnings. Compensation paid to the President and CEO if he is dismissed by the company corresponds to 12 months’ salary in addition to six months’ period of notice salary. Information on the President and CEO and his holdings of Wärtsilä shares and share options is given on page 43 and at www.wartsila.com.

The bonuses paid to the members of the Board of Management are based on the achievement of the company’s profit targets. The retirement age of the members of the Board of Management is sixty.

Management incentive schemes
The company has two stock option schemes for senior managers. The 2001 options covered 78 and the 2002 options 39 key personnel. More information on these schemes is provided on page 30 and 52 of the Financial Review 2005.

The Group also operates a bonus scheme which is implemented globally in all businesses. The bonus is based on the Group’s profitability and agreed personal targets. Approximately 900 directors and managers are covered by this bonus scheme.

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

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

CONTROL SYSTEMS

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

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

Fees paid as Wärtsilä B shares in 2005

<table>
<thead>
<tr>
<th>No. of shares</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,134</td>
<td>Antti Lagerroos (chairman)</td>
</tr>
<tr>
<td>851</td>
<td>Göran J. Ehrnrooth (deputy chairman)</td>
</tr>
<tr>
<td>567</td>
<td>Heikki Altonen</td>
</tr>
<tr>
<td>567</td>
<td>Risto Hautamäki</td>
</tr>
<tr>
<td>567</td>
<td>Jaakko Iloniemi</td>
</tr>
<tr>
<td>567</td>
<td>Bertel Langensköld</td>
</tr>
<tr>
<td>567</td>
<td>Matti Vuorla</td>
</tr>
</tbody>
</table>
Risk management
The purpose of risk management is to ensure that the company's business objectives are reached and that the company remains a going concern. The risk management function analyses the risks faced by the company's various businesses and units. It also defines the risk management principles applied throughout the Group and it develops risk management methods and insurance schemes. Areas of responsibility have been defined in the organization to cover different risks.

The internal audit
The Group’s internal audit is handled by the company's Internal Audit unit, which reports to the President and CEO. The purpose of the Internal Audit is to analyse the company's operations and processes, and to assess the effectiveness and quality of its supervision mechanisms. The internal auditor also participates, if necessary, in audits undertaken in conjunction with acquisitions and he carries out special tasks assigned by the Board of Management.

The internal audit function covers all the company's organizational levels and subsidiaries. An internal audit is undertaken in the main subsidiaries at 1–3 year intervals. The internal auditor prepares an annual plan under which he independently audits different parts of the company but he is also empowered to carry out special audits. The annual plan is approved by the Audit Committee, to which the Internal Audit also reports at regular intervals. If required the auditors have the obligation also to take direct contact with the Audit Committee or members of the Board of Directors.

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

Certain members of the Corporate Management and other employees, as required by their duties, also belong to the company's own non-public insider register. When significant projects are at the preparation stage the company also draws up insider registers for the projects concerned. Insiders are given written notification of their status as insiders as well as instructions on the obligations that apply to insiders.

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

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

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

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

In 2005 the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation’s auditors. In 2005 several auditing firms were asked to submit bids in a competitive tendering process headed by the Audit Committee. Based on the results of this process, the Board of Directors has given its recommendation to the 2006 Annual General Meeting on the choice of auditor.

Auditing fees paid to all the auditors of the Group’s companies during 2005 amounted to 1.8 million euros. Consultancy fees unrelated to auditing duties paid to the auditors totalled 1.3 million euros. These latter fees concerned acquisitions and consultation on taxation matters.

Communications
The principal information on Wärtsilä’s administration and management is published on the company’s website. All stock exchange releases and press releases as well as significant presentation materials used by senior executives are likewise published on the company’s website as soon as these are made public.
WÄRTSILÄ 2005

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; Holming 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 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:**

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

**Primary working experience:**

**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 Clarion International Oy (Outokumpu Copper Products Oy).

**Mr Matti Vuoria**

**Primary working experience:**

**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.

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**Mr Göran J. Ehrnrooth**
Deputy Chairman of the Board of Wärtsilä Corporation. Born 1934, MSc (Econ.). Chairman of the Board of Fiskars Corporation.

**Primary working experience:**
President of Fiskars Corporation 1969–83.

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**Mr Matti Vuoria**

**Primary working experience:**

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Mr Ole Johansson
President & CEO since 2000. Born 1951, BSc (Econ.).
Primary working experience:
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 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:
Positions of trust:
Member of the Board, Satu-Yhtymä Oy.

Mr Mikael Mäkinen
Primary working experience:
Positions of trust:
Member of the Board, AB Volvo Penta; 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:
Positions of trust:
Member of the Board, Vacon Plc

Mr Tage Blomberg
Group Vice President, Service 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 1984–88; Wärtsilä Diesel Oy, Vice President 1989–96; Wärtsilä NSD Corporation, Marine, Senior Vice President 1996–99.

Mr Lars Hellberg
Primary working experience:
Volvo Cars AB, Research 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, LLM. 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,
Mr Matti Kleimola

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 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).

Photos, left to right: Lars Hellberg, Tage Blomberg, Ole Johansson, Pekka Ahlqvist, Matti Kleimola, Kari Hietanen, Raimo Lind and Mikael Mäkinen.

SHARE AND OPTION OWNERSHIP IN WÄRTSILÄ 31 DECEMBER 2005

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>A shares</th>
<th>B shares</th>
<th>Option 2001</th>
<th>Option 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antti Lagerroos, Chairman</td>
<td>12,777</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in 2005</td>
<td>+ 1,134</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Göran J. Ehrenooth, Vice Chairman</td>
<td>4,222</td>
<td>8,520</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in 2005</td>
<td>+ 851</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Heikki Allonen</td>
<td>1,513</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in 2005</td>
<td>+ 567</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risto Hautamäki</td>
<td>4,400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in 2005</td>
<td>+ 656</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Jaakko Ioinemi</td>
<td>3,909</td>
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<td></td>
<td></td>
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<tr>
<td>Change in 2005</td>
<td>+ 567</td>
<td></td>
<td></td>
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<tr>
<td>Bertel Langensköld</td>
<td>3,735</td>
<td></td>
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<td></td>
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<tr>
<td>Change in 2005</td>
<td>+ 567</td>
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<tr>
<td>Matti Vuoria</td>
<td>567</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in 2005</td>
<td>+ 567</td>
<td></td>
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SHARE OWNERSHIP IN WÄRTSILÄ 31 DECEMBER 2005

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

* 42,000 options granted in February 2005.

CHANGES IN WÄRTSILÄ’S BOARD OF MANAGEMENT AND BUSINESS MANAGEMENT BOARDS 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 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.

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.
CORPORATE MANAGEMENT

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

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

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

Ms Maj-Len Ek
Vice President, Group Control. Born 1948, BSc (Econ.).

Ms Bodil Forss
Chief Information Officer (CIO). Born 1957, MSc (Eng.).

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

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

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

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

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

BUSINESS BOARDS

Ship Power

Mr Mikael Mäkinen
Executive Vice President, Group Vice President, Ship Power. Born 1956, MSc (Eng.), Naval Architect.

Mr Carl-Henrik Björk
Vice President, Sales & Marketing. Born 1947, Marine Engineer.

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

Mr Magnus Miemois
Vice President, Solutions. Born 1970, MSc (Eng.).

Mr Clas-Eriik Strand
Vice President, 2-stroke engines, President of Wärtsilä Switzerland Ltd. Born 1945, BSc (Eng.).

Mr Christoph Vitzthum
Vice President, Propulsion- and Seal Systems. Born 1969, MSc (Econ.).

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

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

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

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

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

Ms Eva-Stina Rönnholm
Vice President, Finance & Control. Born 1967, MSc (Econ.).

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

Power Plants

Mr Pekka Ahlqvist
Group Vice President, Power Plants. Born 1946, MSc (Eng.).

Mr Jaakko Eskola
Vice President, Sales & Marketing. Born 1958, MSc (Eng.).

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

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

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

Engine Division

Mr Lars Hellberg
Group Vice President, Engine division. Born 1959, BSc (Eng.).

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

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

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

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

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

Service

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

Mr Pierpaolo Barbone
Vice President, Field Service. Born 1957, MSc (Mn. Eng.).

Ms Maj-Len Ek
Vice President, Group Control. Born 1948, BSc (Econ.).

Ms Bodil Forss
Chief Information Officer (CIO). Born 1957, MSc (Eng.).

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

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

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

Mr Anders Söderholm
Vice President, Corporate Internal Audit. Born 1943, BSc (Econ.), Authorized Public Accountant.
Increasing stakeholder value

Operating principles
Wärtsilä’s internal Corporate Manual, which includes the Code of Conduct approved by Wärtsilä’s Board of Management, defines the company’s working procedures and provides instructions for complying with them. The Corporate Manual also includes the policies, structure and responsibilities of Wärtsilä’s management system at a general level. The company is committed to operating in compliance with the principle of responsible and sustainable development and does so by deciding on the strategy and objectives for sustainable development.

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

Wärtsilä’s management system
Wärtsilä’s management system (called Operative Excellence System, OpExS) aims to generate added value for Wärtsilä’s various stakeholders, achieve the company’s strategic objectives, manage operating risks and enhance Wärtsilä’s performance through the continuous improvement process. The system includes a range of tools, such as systems for managing quality, the company’s environmental responsibilities, and occupational health and safety. Management reviews are conducted at various levels of the organization.

Management systems
<table>
<thead>
<tr>
<th>Environment ISO 14001</th>
<th>Quality ISO 9001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of certified companies</td>
<td>52%</td>
</tr>
</tbody>
</table>

In addition 17 companies have OHSAS 18001 certification.
ization to monitor the effectiveness of the system, the achievement of targets and the development of key performance indicators.

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

Policies of the management systems
Wärtsilä’s Board of Management has approved the following policies:

- Quality Policy – director responsible: Lars Hellberg, Engine Division
- Environmental Management Policy – director responsible: Matti Kleimola, Technology and Environment
- Occupational Health and Safety Policy – director responsible: Kari Hietanen, HR and Legal Affairs

Management of business processes
Wärtsilä enhances the quality and effectiveness of its customer service through development of its business processes and business support applications. A process management structure has been defined and introduced to ensure the continuous development of the company’s operations, consistent with the Group’s strategy. This structure contains the management team, process owners and process office for the so-called Customer Excellence Process.

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

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

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

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

- Customer Excellence Process Board
  - Head of Engine Division
  - Head of Power Plants
  - Head of Ship Power
  - Head of Service
  - CFO
  - CIO
  - Brand Manager
  - HR
  - Legal Affairs
  - Process Office
  - Head of Process Office

Customer Excellence Process (CEP)
Process Management Structure

Support Management
Core process owner

Customer Solutions
Core process owner

Customer Delivery
Core process owner

Customer Relations
Core process owner

Customer

Customer Excellence Process Board
- Head of Engine Division
- Head of Power Plants
- Head of Ship Power
- Head of Service
- CFO
- CIO
- Brand Manager
- HR
- Legal Affairs
- Process Office
- Head of Process Office

Customer

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

Main expectations of Wärtsilä’s stakeholders and Wärtsilä’s goals.
### STAKEHOLDER GROUP

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

### Wärtsilä participates in the activities of the following organizations:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Nature of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confederation of Finnish Industries EK, Chamber of Commerce, Technology Industries of Finland</td>
<td>Active membership</td>
</tr>
<tr>
<td>European Association of Combustion Engine Manufacturers (Euromot), Cogen Europe, VDMA and SCSMI</td>
<td>Participation in activities</td>
</tr>
<tr>
<td>European Committee for Standardization CEN International Organization for Standardization ISO</td>
<td>Participation in activities</td>
</tr>
<tr>
<td>International Maritime Organization IMO International Council on Combustion Engines CIMAC</td>
<td>Participation in activities, Chairmanship and participation in activities</td>
</tr>
<tr>
<td>World Alliance for Decentralized Energy WADE European Federation for Quality Management EFQM</td>
<td>Chairmanship and participation in activities, Participation in activities</td>
</tr>
</tbody>
</table>
INFORMATION FOR SHAREHOLDERS

Annual General Meeting
The Annual General Meeting of Wärtsilä Corporation will take place on Wednesday 15 March 2006, beginning at 4 p.m., in the Congress Wing of the Helsinki Fair Centre, address Messuaukio 1, 00520 Helsinki, Finland.

Right to attend
Shareholders registered no later than 3 March 2006 in the Company’s list of shareholders maintained by the Finnish Central Securities Depository Ltd have the right to attend the Annual General Meeting.

Notification of attendance
Shareholders wishing to attend the Annual General Meeting are required to inform the Company thereof not later than 4:00 pm on 10 March 2006 either by letter, by e-mail, by fax or by telephone.

Address:
Wärtsilä Corporation
Share Register
P.O. Box 196
FI-00531 Helsinki
Finland
Telephone +358 10 709 5282,
between 10 a.m. and 2 p.m. on weekdays
fax +358 10 709 5283
e-mail: yk@wartsila.com

Letters, e-mails and faxes informing of participation at the Annual General Meeting are required to inform the Company thereof not later than 4:00 pm on 10 March 2006. Letters authorizing a proxy to exercise a shareholder’s voting right at the Annual General Meeting should reach the Company before the notification period expires.

Payment of dividend
The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.90 per share and an extra dividend of EUR 0.60 per share, making a total dividend of EUR 1.50 per share, be paid on the 2005 financial period. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Finnish Central Securities Depository Ltd on the record date, which is 20 March 2006. The dividend payment date proposed by the Board is 27 March 2006.

Financial information 2006
Annual Report 2005
This Annual Report is also available in Finnish and Swedish and may be downloaded at Wärtsilä’s internet site, www.wartsila.com

Interim Reports 2006
January-March on Thursday 4 May 2006
January-June on Friday 4 August 2006
January-September on Tuesday 31 October 2006.
Interim Reports are published in English, Finnish and Swedish on Wärtsilä’s internet site.

Annual Report 2006
In 2007 Wärtsilä Corporation will send the printed copies of the Annual Report 2006 on request. The Report will be available in English, Finnish and Swedish also on the company’s internet site at www.wartsila.com

Stock Exchange Releases
Wärtsilä’s Stock Exchange releases are available in English, Finnish and Swedish on Wärtsilä’s internet site.

Ordering information materials
Wärtsilä’s Annual and Interim Reports, brochures and releases can be ordered from the Communications Department either by telephone +358 10 709 0000, fax +358 10 709 5219, e-mail: corpcom@wartsila.com or via the internet at www.wartsila.com.

Wärtsilä worldwide

www.wartsila.com

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English translation and editing:
Andrew Gardiner, Impress Ltd.
Printing house: Frenckell
March 2006
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.