FINANCIAL STATEMENT BULLETIN

’06

JANUARY-DECEMBER

RECORD NUMBER OF NEW ORDERS – PROFITABILITY ON TRACK
DEMAND EXPECTED TO REMAIN ACTIVE, 2007 PROFITABILITY WILL EXCEED 9%

HIGHLIGHTS OF THE REPORTING PERIOD 1-12/2006

- Order intake EUR 4,621.1 million (3,491.1), growth 32,4%
- Order book total EUR 4,438.9 million (2,905.7), growth 52.8%
- Net sales from comparable operations EUR 3,189.6 million (2,520.3), growth 26.6%
- Operating income from comparable operations EUR 261.6 million (202.5), growth 29.2%
- Profitability 8.2% (8.0)
- Capital gain of EUR 173.2 million from sales of Assa Abloy shares and Ovako
- EPS increased to EUR 3.72 (1.80), 1.49 euros refers to capital gains
- Strong cash flow from operating activities EUR 302.4 million (76.0)

- The Board of Directors proposes a dividend of EUR 1.75 per share.

FOURTH-QUARTER HIGHLIGHTS

- Order intake EUR 1,317.6 million (1.100.5), growth 19.7%
- Net sales from comparable operations EUR 985.9 million (773.5), growth 27.5%
- Operating income from comparable operations EUR 99.2 million (86.1), growth 15.2%
- Profitability 10.1% (11.1)

REVIEW PERIOD JANUARY – DECEMBER 2006 IN BRIEF

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

The acquisition of Total Automation Pte Ltd was closed on 30 June 2006. Total Automation has been consolidated as of 30 June 2006. The acquisition price was EUR 59.4 million. Goodwill of EUR 37.4 million has been recognized.

MEUR	10-12/2006	10-12/2005	Change%
Net sales	985.9	773.5	27.5
Operating income	99.2	86.1	15.2
% of net sales	10.1%	11.1%	
Income before taxes	141.3	83.0	
Earnings / share, EUR	1.13	0.75	

MEUR	1-12/2006	1-12/2005	Change%
Net sales	3,189.6	2,520.3	26.6
Operating income	261.6	202.5	29.2
% of net sales	8.2%	8.0%	
Income before taxes	446.8[2]	212.4[1]	
Earnings/share, EUR	3.72	1.80	
Interest-bearing net debt at end of period	54.7	255.9	
Gross capital expenditure	193.2	231.1	

[1]The figure in the comparison period includes Imatra Steel's pre-tax profit of EUR 21.4 million and Wärtsilä's share of Ovako's profit after taxes EUR 10.4 million.

[2]The January – December result 2006 includes Wärtsilä's share of Ovako's profit after taxes, EUR 67.4 million, and a capital gain of EUR 123.9 million from the sales of Assa Abloy B shares.

STRATEGY AND OBJECTIVES

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

Strategic measures in 2006

Wärtsilä took several steps during 2006 to support its strategic goals:
• In February Wärtsilä acquired Aker Kvaerner Power and Automation Systems AS (AKPAS) from Aker Kvaerner.
• An alliance between Wärtsilä Automation Norway and the US company Emerson Process Management.
• In March, Wärtsilä and the BLRT Grupp of Estonia agreed on a joint venture to service ships in the Baltic area.
- In June the acquisition of the entire business and all subsidiaries of Singaporean Total Automation Ltd was closed.
• In July Wärtsilä acquired the German service company INTEC Injectortechnic GmbH.
• Acquisition of the business of the Swedish company Stockholms Fartygsreparationer AB in October.
• In December Wärtsilä acquired the German ship design company group SCHIFFKO.
• The new factory for Wärtsilä Auxpac marine generating sets in China was inaugurated at the end of June.
• In September Wärtsilä, China Shipbuilding Industry Corporation and Mitsubishi Heavy Industries announced the establishment of a joint venture to manufacture large, low-speed marine engines in China.
• In China Wärtsilä is investing in additional capacity to meet increased demand for propellers.
• The agreement signed in July by Wärtsilä, SKF and Rautaruukki to sell the operating companies owned by Oy Ovako Ab was closed during the fourth quarter of 2006.

Financial targets

The Group's average annual growth target for net sales is 6–7%. The annual growth target for the Ship Power and Power Plants businesses is 4% and for the Services business 10–15%. Wärtsilä's operating income (EBIT) target is 8% of net sales over the cycle. The solvency target is 35-40%.

THE YEAR 2006

Operating environment and markets

Ship Power

In terms of vessels orders 2006 exceeded all expectations and the year turned out to be the best of all during the current shipbuilding boom and probably the best in the history of modern shipbuilding. Orders for 2,677 vessels were registered in 2006, which exceeds the earlier record in 2005 by 10%. Also in terms of deadweight tons the year exceeded the previous record from 2003 by 22%.

All energy-related segments have been the main drivers behind the highly active shipbuilding market. In very large tankers, VLCCs and Suezmax class vessels, for example, the order volumes were more than three times higher than in the previous year. In chemical and gas tankers the level remained the same. Demand for containerships slowed down, indicating the challenges faced by liners with increased costs and stagnating freight rates. In the big cruise vessel segment the number of vessels remained more or less the same, while in passenger vessels and ferries ordering volumes halved.

China continued to grow in the shipbuilding market. In terms of deadweight tons Korea maintained its dominating country position with a share of 38% although China approached closer than ever with 35%. In numbers of vessels China was clearly the biggest with 34% followed by Korea 25% and Europe 17%. Korea is strongest in the tanker and container sectors and almost entirely serves export customers, whereas Japanese yards predominantly serve domestic customers, the main sectors being dry cargo and gas vessels. China is active in all segments, except for the most sophisticated vessel types, and its customer base in mainly abroad. There has been relatively little competition between the countries for the same customers due to the strong demand for new ships and new-build prices have remained strong.

Power Plants

All power plant segments relevant to Wärtsilä – baseload production, industrial self generation and grid stability – were active in 2006. Demand was evenly spread globally, which reduced the risks associated with single markets and geographical concentration.

The high prices of oil, gas and metals had a positive impact on demand for power plants in certain markets. Countries in Africa and the Middle East, as well as other oil-producing countries are investing heavily in new infrastructure. Demand has also been high for gas power plants, notably in Japan. Liquid-biofuelled power plants are continuously offering new opportunities for Wärtsilä in both Europe and the developing world.

ORDER BOOK AGAIN AT ALL-TIME- HIGH

A record number of new orders were received during the year. The order intake totalled EUR 4,621.1 million (3,491.1) representing growth of 32.4%. Most new orders were registered in the Ship Power business, where the order intake was EUR 2,270,5 million (1,545.3), 46.9% higher than one year earlier. The full-year order intake for the Power Plants business grew by 18.7% and was EUR 1,027.3 million (865.2).

Wärtsilä's total order book at the end of 2006 once again reached an all-time high, EUR 4,438.9 million (2,905.7), up 52.8% on the previous year. Approx. 50% of the order book is due for delivery in 2007.

Order intake by business

MEUR	10-12/2006	10-12/2005	Change%
Ship Power	619.5	475.1	30.4
Services	388.0	278.2	39.4
Power Plants	311.4	346.6	-10.1
Order intake, total	1,317.6	1,100.5	19.7

MEUR	1-12/2006	1-12/2005	Change(%)
Ship Power	2,270.5	1,545.3	46.9
Services	1,322.2	1,077.1	22.8
Power Plants	1,027.3	865.2	18.7
Order intake, total	4,621.1	3,491.1	32.4

Order book by business

MEUR	12/2006	12/2005	Change(%)
Ship Power	3,019.7	1,658.5	82.1
Services	356.6	303.3	17.6
Power Plants	1,061.4	943.9	12.4
Order book, total	4,438.9	2,905.7	52.8

Strong growth in net sales

Wärtsilä's comparable consolidated net sales rose to EUR 3,189.6 million (2,520.3), an increase of 26.6% compared to 2005. Ship Power's net sales accounted for roughly 30% of total net sales, Services sales represented 40% and Power Plants' share of total net sales was around 30%.

Net sales by business

MEUR	10-12/2006	10-12/2005	Change%
Ship Power	404.3	265.5	52.3
Services	350.4	315.0	11.2
Power Plants	227.8	193.7	17.6
Total	985.9	773.5	27.5

MEUR	1-12/2006	1-12/2005	Change (%)
Ship Power	984.7	710.3	38.6
Services	1,266.5	1,093.1	15.9
Power Plants	934.2	710.3	31.5
Total	3,189.6	2,520.3	26.6

Result improved, profitability developed according to plan

The comparable operating income improved to EUR 261.6 million (202.5). The profitability (EBIT) was 8.2% (8.0).

Financial items amounted to EUR -7.1 million (-23.4). Net interest totalled EUR -12.8 million (-11.9). Other financial expenses were EUR -2.7 million (-18.7). Other financial items decreased primarily due to changes in market value of derivatives and currency differences. Financial items include dividends totalling EUR 8.5 million (7.2), the largest of which were dividends paid by Assa Abloy AB (publ)and Sampo Oyj.

Income before taxes was EUR 446.8 million (212.4). The result includes a capital gain of EUR 123.9 million from the sale of 10 million Assa Abloy B shares and Wärtsilä's share of Ovako's profit after taxes, EUR 18.1 million. The result also includes a capital gain of EUR 49,3 million from the sale of Ovako. The figure in the comparison period includes Imatra Steel's pretax profit of EUR 21.4 million and Wärtsilä's share Ovako's profit after taxes EUR 10.4 million.

Taxes amounted to EUR -93.9 million (-44.0), of which EUR -32.2 million related to the sale of Assa Abloy shares. Taxes include deferred tax assets totalling EUR +25.5 million related to previously recognized restructuring expenses.

Net income was EUR 352.9 million (168.4).

Earnings per share improved to EUR 3.72 (1.80) out of which 1.49 euros refers to capital gains. Return on investment (ROI) was 31.8% (18.0) and return on shareholders' equity (ROE) was 29.5% (16.3).

Financial position strong

Wärtsilä's cash flow from operating activities was EUR 302.4 million (76.0). The financial position was strong. In addition to good cash flow from operating activities advanced payments increased during the review period. Due to the increase in business volumes both receivables and inventories have increased.

Cash and cash equivalents at the end of the year amounted to EUR 179.4 million (119.6). Net interest-bearing loan capital was EUR 54.7 million (255.9). The solvency ratio was 47.0% (46.6) and gearing was 0.07 (0.24).

Capital Expenditure

Gross capital expenditure for the reporting period totalled EUR 193.2 million (231.1), which comprised EUR 86.4 million (152.2) in investments in acquisitions and EUR 106.8 million (79.0) in production and information technology investments. Depreciation amounted to EUR -71.6 million (-71.6).

The largest single investment was the acquisition of the businesses of Total Automation Ltd. The acquisition price was EUR 59.4 million.

During 2006 investments in the Trieste and Vaasa factories amounted to EUR 12.5 million and Wärtsilä had commitments related to the investment programmes amounting to EUR 14.3 million.

Holdings

Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% (4.7) of the total. This holding was booked in the balance sheet at its market value at the end of the reporting period, EUR 119,8 million.

During the reporting period Oy Ovako Ab sold its operating companies of which Wärtsilä's share was 26.5%. The total price of the business was approximately EUR 660 million, comprising a cash payment at closing of approximately EUR 535 million, a deferred cash payment of EUR 15 million to be paid in July 2008 and an interest-bearing vendor note of EUR 110 million to be paid within 3-6 years from closing. As a result of the transaction and the subsequent liquidation of Oy Ovako Ab, Wärtsilä has recorded a tax-free capital gain of EUR 49,3 million.

Personnel

Wärtsilä Group had 13,264 (12,049) employees on average during the year and 14,346 (12,008) at the year end. The personnel increased both through recruitments and by acquisitions by over 2,300 people. The largest personnel increases took place in the Services business. The largest increases were in Europe and Asia. The number of employees in Finland increased by 332 persons during the year.

The largest personnel increases through acquisitions related to Total Automation Ltd with a personnel increase of 571 people, AKPAS in Norway 135 people and Diesel Technology Solutions BV (DTS) with 75 people.

The auxiliary engine factory jointly owned by Wärtsilä and Shanghai Marine Diesel Engine Research Institute employed 52 people at the year end. The service company Wärtsilä BLRT Services Klaipeda established in Lithuania by the joint venture between Wärtsilä and BLRT Grupp employed 71 people at the end of the year.

Sustainable Development

The Sustainability Report, which is part of the annual report, is prepared to meet the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental and social performance. The Sustainability Report is assured.

Changes in management

Jaakko Eskola (48) MSc (Eng.) was appointed Group Vice President, Ship Power and a member of the Board of Management with effect from 1 April 2006.

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

Christoph Vitzthum (37) MSc (Econ.) was appointed Group Vice President, Power Plants and a member of the Board of Management with effect from 1 April 2006.

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

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

Option schemes

Wärtsilä's option schemes covering key employees of the Group were launched in 2001 and 2002. The 2001 option rights have been listed on the Helsinki Exchange since 2005 and the 2002 option rights since 2004.

The decisions of Wärtsilä's annual general meeting and the extraordinary general meetings to pay an extra dividend of EUR 0.60 per share and EUR 1.50 per share reduced the subscription price of the B share under Wärtsilä's 2001 and 2002 stock option schemes by the amount of extra dividends, as stipulated in the terms and conditions of these schemes. Hence the subscription price of shares based on the 2001 options is EUR 14.60 euros per share and based on the 2002 options EUR 7.40 per share.

Annual General Meeting

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

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

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

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

Board of Directors

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

Audit Committee

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

Nomination Committee

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

Compensation Committee

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

Extraordinary general meeting

The extraordinary general meeting on 24 November 2006 approved the Board of Directors' proposal to pay an extra dividend of 1.50 euros on each Series A and B share for the financial period ended 31 December 2005.

Share capital and shares

A total of 1,447,236 Wärtsilä B shares were subscribed during the period under the 2001 and 2002 option schemes. This increased the share capital by EUR 5,065, 326.00 following which the share capital amounts to EUR 334,440,232.00.

Shares and shareholders

31 Dec. 2006	A-share	B-share	Total
Number of shares	23,579,587	71,974,765	95,554,352
Number of votes	235,795,870	71,974,765	307,770,635

Number of shares traded, 1-12/2006

	1.716.400	92.322.506	94.038.906

Foreign shareholders	31 Dec 2006	31 Dec. 2005
	29.3%	24.1%

Shares on the Helsinki Exchange 1 Jan. – 31 Dec. 2006

	High	Low	Average[1]	Close
A-share	40.99	24.60	32.52	40.75
B-share	41.20	24.80	32.07	40.81

[1]Trade-weighted average price.

Market capitalization	31 Dec. 2006	31 Dec. 2005
MEUR	3,898.2	2,348.9

BUSINESS REVIEW

Wärtsilä Ship Power

MEUR	10-12/2006	10-12/2005	Change (%)
Net sales	404.3	265.5	52.3
Order intake	619.5	475.1	30.4

MEUR	1-12/2006	1-12/2005	Change (%)
Net sales	984.7	710.3	38.6
Order intake	2,270.5	1,545.3	46.9
Order book, end of period	3,019.7	1,658.5	82.1

New record in received orders

In 2006 Wärtsilä set a new record in orders received for Ship Power equipment and systems. The total order intake for 2006 was EUR 2,270.5 (1,545.3) million, which is 46.9% more than in the previous year. The order intake during the year was dominated by offshore vessels and LNG tankers, together standing for approximately half of the total order intake. The cruise and passenger segments, other tankers and various service vessels were also active.

The final order book at the end of the year was at an all-time high, EUR 3,019.7 (1,658.5) million, representing growth of 82.1%.

Net sales of the Ship Power business rose to EUR 984.7 million (710.3), corresponding to growth of 38.6% on the previous year. Growth accelerated towards the end of the year and the fourth quarter represented over 40% of the year's net sales. In terms of engine output Wärtsilä delivered medium-speed engines totalling 2,397 MW (1,760) to the marine market. Deliveries of licensee-built Wätsilä low-speed engines amounted to 3,120 MW (3,577) in 2006.

A successful year for Ship Power in several areas

Wärtsilä gained further success with its dual-fuel concept in LNG carriers in 2006 and the concept became a major solution for powering these vessels. At the year end Wärtsilä had a total of 188 W50 dual-fuel engines on order for seven shipyards and for 47 LNG vessels. In the offshore segment Wärtsilä received an order from MPF Corporation Ltd for a Multi Purpose Floater mobile drilling unit whereby Wärtsilä will deliver an integrated onboard power plant along with power distribution, automation and propulsion systems. The order is a good example of the enhanced capabilities Ship Power has gained by acquiring the automation and power system company AKPAS in Norway in March 2006. The acquisition on the one hand enlarged Wärtsilä´s product portfolio and on the other increased the company's system integration capabilities in electric propulsion, power distribution and automation, especially in the oil and gas and offshore sectors.

Cruise and passenger vessels remained one of Wärtsilä's key segments also during 2006. Wärtsilä recorded several sizeable orders from shipyards in Finland, Italy, France and Germany. Wärtsilä was awarded a contract to deliver the main engines and transverse tunnel thrusters for the world's biggest cruise vessel, to be built at Aker Yards in Finland for Royal Caribbean Cruise Ltd.

In its propeller business Wärtsilä booked a historic order for altogether 50 fixed pitch propellers for two Chinese customers. The propellers are to be manufactured in Zhenjiang, China.

Market share

The total market for medium-speed main engines in 2006 was 9,200 MW (9,600). Wärtsilä Ship Power increased its market share in this sector to 51% (50% at the end of the previous quarter). The other main players in this area recorded shares of 23% and 13%. The high market share is a reflection of the market segments active during the year and for which Wärtsilä's product portfolio is well suited. In low-speed engines the total market was 26,600 MW (21,900) at the end of the previous quarter, out of which Wärtsilä's share was 16% (17%). Wärtsilä's low-speed engines are manufactured by licensees primarily in Asia close to the customers. The establishment of a joint venture company for manufacturing low-speed engines in China and the recent acquisition of the ship company Schiffko are strategic measures Wärtsilä has taken to improve its market share in the low-speed business. The total market for auxiliary engines was 7,600 MW (6,700) and Wärtsilä's share fell slightly from 7% to 6% due to capacity constraints.

In propulsor equipment Wärtsilä maintained its strong foothold. Controllable pitch propellers remained the strongest segment for Wärtsilä with a market share of 36% (35). In fixed pitch propellers Wärtsilä has traditionally been stronger in big units and, owing to the constraints in capacity, the company's market share has decreased to 11% (18). At the moment Wärtsilä is further increasing its fixed pitch propeller capacity in China to meet demand. In steerable thrusters likewise, demand has been very high. In this segment Wärtsilä's share has remained unchanged 11% (11).

Wärtsilä Services

	10-12/2006	10-12/2005	Change (%)
Net sales, MEUR	350.4	315.0	11.2
Order intake	388.0	278.2	39.4

	1-12/2006	1-12/2005	Change (%)
Net sales, MEUR	1,266.5	1,093.1	15.9
Order intake	1,322.2	1,077.1	22.8
Order book, end of period	356.6	303.3	17.6
Personnel, end of period	8 539	7 200	18.6

Strong growth continued
Net sales of the Services business rose to EUR 1,266.5 million (1,093.1), up 15.9% on the previous year of which 9.3% was organic growth.

The acquisition of Total Automation Ltd was part of the company's strategy to strengthen its position as a Total Service supplier. It also complements earlier automation acquisitions. Total Automation has a strong foothold in the offshore and LNG sectors. The ship repair company set up in Lithuania jointly with the Estonian BLRT Grupp serves the Baltic market. The acquisition in July of INTEC Injectortechnic GmbH, provides installation and service of injection components for marine diesel engines. The acquisition of the Swedish company Stockholms Fartygsreparationer, positions Wärtsilä to further expand its Services operations on the eastern coast of Sweden.

With its recent acquisitions, the company has turned its "one-stop-shop" vision into a reality: through Wärtsilä, customers now have a unique opportunity to get the largest scope of services from a single source all over the world. To help customers select services more easily, Wärtsilä Services has re-structured its offering into seven categories: Engine services, Automation Services, Propulsion Services, Operation & Management Services, Reconditioning Services, Training Service and Ship Services.

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

Wärtsilä Power Plants

MEUR	10-12/2006	10-12/2005	Change(%)
Net sales	227.8	193.7	17.6
Order intake	311.4	346.6	-10.1
Order intake, MW			
Oil	123	489	-74.9
Gas	524	345	52.1
BioPower, MWth	55	17	215.0

MEUR	1-12/2006	1-12/2005	Change(%)
Net sales	934.2	710.3	31.5
Order intake	1,027.3	865.2	18.7
Order intake, MW			
Oil	926	1,134	-18.3
Gas	1,232	924	33.3
BioPower, MWth	193	117	64.4
Order book, end of period	1,061.4	943.9	12.4

High demand boosted net sales
The total power plant order intake for 2006 amounted to EUR 1,027.3 (865.2) million, representing growth of 18.7% on the corresponding period in 2005. Markets remained active in all major segments and in all fuel types. The share of gas-fired power plants rose to 52% of the total order intake. Gas-fired power plants were sold as flexible baseload installations, for grid stability and as solutions for industrial self-generation purposes. The largest single orders came from Azerbaijan, the United States, Tanzania, Nigeria and Turkey, Many of these orders are repeat orders, testament to the good experience Wärtsilä's customers have had with previous Wärtsilä installations. Wärtsilä also sold more than 150MW of gas-fired plants to Japanese customers in 2006, which makes the company the market leader in large gas engines in Japan.

Oil-fired power plants continue to offer possibilities in the areas of industrial self-generation and flexible baseload power generation. The largest orders in 2006 came from Brazil, Saudi Arabia, Italy, Cyprus and Uganda. Wärtsilä has a strong foothold in the biofuel market and received orders totalling more than 160 MW for liquid-biofuel-fired power plants to be delivered to Italy, which further demonstrates the versatility and fuel flexibility of the Wärtsilä Power Plant products.

As a result of the good order intake during 2006 the order book for the Power Plants business is EUR 1,061.4 (943.9) million, which is 12.4% higher than at the end of the reporting period one year earlier.

Net sales for Power Plants developed favourably during 2006 and totalled EUR 934.2 (710.3) million, representing growth of 31.5%. Geographically, sales were distributed evenly with the largest growth coming from successful deliveries of power plants in Brazil and Azerbaijan. 1,944 MW was delivered during 2006, which comprised 746 MW for gas and 1,198 MW for oil.

Market size and market shares
In 2006 the total global market for oil and gas power plants in Wärtsilä's power range was roughly 14,750 MW (10,300). In these markets Wärtsilä focuses on heavy fuel oil, gas and liquid biofuel power plants.

According to statistics compiled by Diesel and Gas Turbine magazine, Wärtsilä's market share of heavy fuel oil plants between June 2005 and May 2006 was 34% (44). During the review period a large number of smaller heavy fuel oil power plants were ordered. These power plants are not within Wärtsilä's power range. In the light fuel oil segment relevant to Wärtsilä, Wärtsilä's market share increased to 23% (9) thanks to high demand for Wärtsilä's power plants fuelled by liquid biofuels. The market for gas power plants, including both reciprocating engines and gas turbines, increased from 7,574 MW to 10,371 MW during the same period. Wärtsilä's share in this segment was 8.1% (7.8).

Manufacturing

Engines
In 2006 Wärtsilä announced investment programmes to increase production capacity for four–stroke engines in Vaasa, Finland and Trieste, Italy to meet the growing market demand. The investment projects are proceeding according to plan; capacity increases will start during the second quarter of 2007 and full capacity will be reached in the fourth quarter of 2007. The planned production model raises efficiency and ensures flexibility in terms of both multi-engine delivery and volumes, throughout the supply chain.

Wärtsilä Qiyao Diesel Co Ltd (Shanghai), the joint venture company between Wärtsilä Corporation and the Shanghai Marine Diesel Engine Research Institute (SMDERI) for manufacturing Wärtsilä Auxpac marine generating sets in China, was started in mid-2006. The new assembly factory manufactures Wärtsilä Auxpac 20 and from the end of 2007 also Auxpac 26 diesel generating sets for the growing shipbuilding market in China. It also exports these products to other countries through Wärtsilä's global sales network.

Wärtsilä, China Shipbuilding Industry Corporation (CSIC) and Mitsubishi Heavy Industries (MHI) have decided to establish a joint venture factory to produce low-speed engines in China in order to meet the increasing demand in Asia and the growing shipbuilding market in China. The QMD factory will produce large marine engines for Chinese shipyards. It will develop, manufacture and sell a new generation of energy-saving and environmentally-sound low-speed two-stroke marine engines under licence from Wärtsilä and MHI. The factory will be built in the Qingdao area, where CSIC is setting up a marine industry cluster. Production is expected to start in 2008.

The acquisition of Diesel Technology Solutions BV (DTS) in 2006 has increased Wärtsilä's component machining capacity.

Wärtsilä has continued to develop capacity for critical components to be able to meet growing demand in the years ahead. Investments have been implemented by many of the company's suppliers and the main part of the investment will be operational during 2007. Wärtsilä is increasingly looking at broadening its supplier network in Asia and India.

In output terms a total of 4,256 (3,445) MW of four-stroke engines manufactured by Wärtsilä's own factories was delivered to customers during the year.

Other equipment

In propulsion equipment Wärtsilä launched investment programs to enlarge the Chinese transverse thruster factory to cover also the steerable thruster product range. At the same time the company is increasing capacity for larger thrusters in the Drunen factory in the Netherlands. Furthermore, Wärtsilä is adding capacity for fixed pitch propellers in its joint-venture factory in Zhenjiang, China.

To meet the increased demand in seals and bearings Wärtsilä is building a new factory for seals, line shaft bearings and sterntubes in Wuxi, China. The factory will further strengthen Wärtsilä's position in seal and bearing products on the Chinese market.

The capacity enlargements of the investment projects will enter operation by mid 2007.

Research and development

Wärtsilä's research and development focuses on developing and applying technology with the aim of reducing environmental impacts, improving efficiency and reducing the fuel consumption of the engines. In its propulsion business Wärtsilä is continuously focusing on technologies for increasing propulsion efficiency and on environmentally friendly sealing solutions for the containment of oil.

In 2006 Wärtsilä and MAN Diesel agreed to propose a large-scale Cooperative Research Project – HERCULES-B – in continuation of an ongoing joint research project funded by the European Union. The target is to improve the fuel efficiency of marine diesel propulsion systems to more than 60%. An additional concurrent aim is towards ultra-low exhaust emissions from marine engines by 2015. The HERCULES-B Project is planned to run over a four-year period and is expected to be fully agreed in 2007. It will be subsequently proposed for funding within the Framework Program 7 (FP7, Theme Transport) of the European Commission.

In the field of fuel cell development the European Union has chosen a research consortium coordinated by Wärtsilä to develop the use of methanol-consuming fuel cells to provide electrical power to marine vessels. The main purpose of the METHAPU project is to develop and validate renewable-fuel-based technology on board a cargo vessel involved in international trade.

In 2006 the 14RT-flex96C engine, the most powerful diesel engine ever built, was delivered to the customer. The engine has an output of 108,920 bhp.

In 2006 Wärtsilä's research and development expenses totalled EUR 84.8 million (71.0), or 2.7% (2.7) of net sales.

Events after the end of the period

Wärtsilä and Hyundai Heavy Industries Co. Ltd (HHI) signed an agreement on 23 January 2007 to set up a 50/50-owned joint venture in Korea to manufacture dual-fuel engines for LNG (liquefied natural gas) carriers. The total investment in the company will be EUR 58 million, Wärtsilä´s share being EUR 29 million. The name of the company will be Wärtsilä Hyundai Engine Company Ltd.

Boards proposal to the AGM 2007

The Board of Directors proposes to the Annual General Meeting on 14 March 2007 that a dividend of 1.75 euros per share be paid for the financial year 2006.

Risks and business uncertainties

The very high level of demand has led to short supply of some key components. Examples of bottlenecks are castings and forgings where global demand exceeds supply. Wärtsilä has worked hard to overcome the situation and several measures have been taken to ensure the availability of these key components. Investments have been implemented by many of the company's suppliers and the main part of the investments will be operational during 2007.

Market outlook 2007

The shipping and shipbuilding industries continue to grow extremely strongly. The pace of new orders accelerated towards the end of the year. After the fourth consecutive boom year, shipyard order books now represent roughly 30% of the existing vessel fleet. The increase in deliveries will speed up the growth of the sailing fleet over the next few years at an annual rate of 6-7%. In the immediate years to come the world economy and sea trade are expected to grow at an annual rate of 5%. Freight rates have maintained their level and there have been no significant decreases in any of the segments. Thanks to strong earnings shipowners have been able to continue to invest in new ships.

High energy prices have accelerated investments in the energy-related industries. Offshore investments for both vessels and various production platforms are estimated to continue despite somewhat reduced oil prices. In the offshore vessel segment average earnings are clearly above the long-term trends.

In 2007 shipyards will increase their capacity at the same time more new ships are entering the market. This is raising pressure on both freight rates and new-build prices. At the macroeconomic level the fundamentals have not changed and the above factors suggest a decrease in activity levels in the long term. However, at this stage no signs of deceleration exist and Wärtsilä foresees strong demand continuing for at least the first part of 2007.

The main drivers for continued growth in the power plant market remain world economic growth as well as the need to improve efficiency and increase versatility in power generation due to high fuel prices. Other drivers for the power plant market were environmental concerns and fuel availability issues. Power Plants sees growth potential in the grid stability services market in North America as well as other developed countries. Russia offers significant market potential in the oil and gas industry where recent signs point to considerable growth in demand for energy generation and the need to renew outdated power plant capacity. Japan continues to remain an active gas power plant market. Flexible baseload power as well as industrial self-generation are forecast to remain active market segments throughout the Middle East and

Central and South America. A continued high order intake is expected in all segments during the first part of 2007.

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

Wärtsilä stands well prepared for changes in the market having restructured its business, penetrated new market segments and achieved growth in its Services business.

WÄRTSILÄ'S PROSPECTS IN 2007

Demand in the ship power and energy markets looks likely to remain active for Wärtsilä for at least the first half of 2007. Based on the strong order book, Wärtsilä's net sales are expected to grow this year by around 15%. Profitability will exceed 9%. Wärtsilä sees further possibilities for growth in 2008.

5 February 2007
Wärtsilä Corporation
Board of Directors

The financial statement bulletin has been prepared in accordance with the recognition and measurement principles under International Financial Reporting Standards (IFRS).

GROUP INCOME STATEMENT

MEUR	2006	2005
Net sales	3,189.6	2,638.8
Change in inventories of finished goods & work in progress	88.4	28.2
Work performed by the Group and capitalized	2.3	1.2
Other income	24.8	26.8
Material and services	-1,955.2	-1,522.5
Employee benefits expenses	-629.5	-540.0
Depreciation	-71.6	-71.6
Other expenses	-387.3	-336.6
Operating result	261.6	224.3
Income from financial assets	8.5	7.2
Interest income	4.0	2.9
Other financial income	23.2	5.5
Interest expenses	-16.8	-14.7
Other financial expenses	-26.0	-24.3
Net income from investments available for sale	123.9	0.5
Share of profit of associates	68.3	10.9
Profit before taxes	446.8	212.4
Taxes for the period	-93.9	-44.0
Profit for the financial period	352.9	168.4
Attributable to:		
Equity holders of the parent company	351.2	167.0
Minority interest	1.7	1.4
Total	352.9	168.4
Earnings per share attributable to equity holders of the parent company:		
Earnings per share, EUR	3.72	1.80
Diluted earnings per share, EUR	3.71	1.78

CONSOLIDATED BALANCE SHEET, MEUR

Assets	31 Dec. 2006	31 Dec. 2005
Non-current assets		
Intangible assets	185.1	175.4
Goodwill	417.3	365.7
Property, plant and equipment	300.1	255.7
Investment properties	14.9	17.2
Equity in associates	3.1	108.5
Investments available for sale	182.8	284.4
Interest-bearing investments	35.2	27.2
Deferred tax receivables	86.7	77.6
Other receivables	7.6	4.2
Total	1,232.8	1,315.8
Current assets		
Equity in associates[1]	5.6	
Inventories	837.6	638.6
Interest-bearing receivables	1.0	0.9
Trade receivables	772.2	670.2
Income tax receivables	7.5	16.1
Other receivables	151.5	107.4
Cash and cash equivalents	179.4	119.6
Total	1,954.8	1,552.8
Assets	3,187.6	2,868.6

[1] Shares in Oy Ovako Ab

CONSOLIDATED BALANCE SHEET, MEUR

Shareholders' equity and liabilities	31 Dec. 2006	31 Dec. 2005
Shareholders' equity		
Share capital	334.4	329.4
Share premium reserve	58.0	44.0
Translation differences	2.9	7.0
Fair value reserve	128.2	146.9
Retained earnings	693.3	625.8
Total equity attributable to equity holders of the parent	1,216.9	1,153.1
Minority interest	12.9	9.8
Total shareholders' equity	1,229.8	1,163.0
Non-current liabilities		
Interest-bearing debt	204.6	229.4
Deferred tax liabilities	74.0	78.8
Pension obligations	52.5	50.5
Provisions	19.5	17.0
Other liabilities	1.1	1.5
Total	351.8	377.2
Current liabilities		
Interest-bearing debt	65.8	174.2
Provisions	117.0	104.1
Advances received	572.0	371.4
Trade payables	270.5	238.1
Income tax liabilities	77.9	29.9
Other current liabilities	502.7	410.7
Total	1,606.0	1,328.5
Total liabilities	1,957.8	1,705.7
Total equity and liabilities	3,187.6	2,868.6

CONSOLIDATED CASH FLOW STATEMENT

MEUR	2006	2005
Cash flow from operating activities:		
Profit before taxes	446.8	212.4
Adjustments:		
Depreciation	71.6	71.6
Share of profit of associates	-68.3	-10.9
Selling profit and loss of fixed assets	-131.0	-11.8
Financial income and expenses	6.4	23.4
Other changes	1.9	-1.5
Cash flow before changes in working capital	327.3	283.1
Changes in working capital:		
Current assets, non interest-bearing, increase (-) / decrease (+)	-124.6	-107.9
Inventories, increase (-) / decrease (+)	-188.8	-117.1
Current liabilities, non interest-bearing, increase (-) / decrease (+)	365.0	105.2
Changes in working capital	51.6	-119.8
Cash flow from operating activities before financial items and taxes	378.9	163.3
Financial items and taxes:		
Interest and other financial expenses	-24.2	-47.6
Interest and other financial income	3.7	10.9
Income taxes	-56.1	-50.5
Financial items and taxes	-76.6	-87.3
Cash flow from operating activities	302.4	76.0
Cash flow from investing activities:		
Investments in subsidiary shares	-86.1	-126.0
Investments in shares	-0.3	-26.2
Investments in tangible and intangible assets	-99.0	-79.0
Proceeds from sale of shares	317.6	-8.6
Proceeds from sale of tangible and intangible assets	5.1	51.2
Loan receivables, increase (+) / decrease (-) and other changes	2.2	3.0
Dividends received from investments	8.5	7.2
Cash flow from investing activities	148.0	-178.3
Cash flow after investing activities	450.4	-102.3

Cash flow from financing activities:		
Options exercised	19.0	22.1
Loans receivables, increase (-) / decrease (+)	-6.9	-44.7
Current loans, increase (+) / decrease (-)	-84.5	183.7
New long-term loans	6.0	53.2
Amortization and other changes to long-term loans	-36.9	-83.0
Dividends paid	-283.5	-83.9
Other changes	-0.2	0.1
Cash flow from financing activities	-387.0	47.6
Change in liquid funds, increase (+)/decrease (-)	63.3	-54.7
Cash and cash equivalents at beginning of period	119.6	169.
Fair value adjustments, investments	0.7	0.4
Exchange rate changes	-4.2	4.3
Cash and cash equivalents at end of period	179.4	119.6

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

MEUR

Total equity attributable to equity holders of the parent:

	Share capital	Share premium	Translation differences	Fair value reserves	Retained earnings	Minority interest	Total
Shareholders' equity on 31 December 2004	323.9	27.3	-1.0		542.5	7.8	900.5
IAS 39 appl. January 1st, 2005				184.2			184.2
Translation differences			8.0			1.2	9.2
Other changes					-0.3		-0.3
Available-for-sale investments							
gain/loss from fair valuation, net of taxes				15.7			15.7
transferred to income statement, net of tax				-0.1			-0.1
Cash flow hedges after taxes				-52.8			-52.8
Net income recognised directly in equity			8.0	146.9	-0.3	1.2	155.8
Profit for the financial period					167.0	1.4	168.4
Total recognized income & expense for the period			8.0	146.9	166.7	2.6	324.2
Options exercised	5.4	16.7					22.1
Dividends paid					-83.3	-0.6	-83.9
Shareholders' equity on December 31, 2005	329.4	44.0	7.0	146.9	625.8	9.8	1,163.0
Translation differences			-4.1		-0.5	-0.8	-5.4
Other changes						2.6	2.6
Available-for-sale investments							
gain/loss from fair valuation, net of taxes				24.9			24.9
transferred to income statement, net of tax				-80.6			-80.6
Cash flow hedges after taxes				37.0			37.0
Net income recognized directly in equity			-4.1	-18.7	-0.5	1.8	-21.5
Profit for the financial period					351.2	1.7	352.9
Total recognized income and expense for the period			-4.1	-18.7	350.7	3.5	331.3
Options exercised	5.1	14.0					19.0
Dividends paid					-283.2	-0.3	-283.5
Shareholders' equity on December 31, 2006	334.4	58.0	2.9	128.2	693.4	12.9	1,229.8

BUSINESS SEGMENTS **Income statement 2006**	**Power Businesses**	**Holdings**	**Unallocated**	**Group**
MEUR				
Net sales	3,189.6			3,189.6
Operating result	261.6			261.6
Financial income and expenses,dividends	-15.0	7.9		-7.1
Net income from assets available for sales		123.9		123.9
Share of profit of associates	0.9	67.4		68.3
Profit before taxes				446.8
Assets	2,891.4	202.0	94.2	3,187.6
Liabilities	1,805.8		152.0	1,957.8
Investments	193.2			193.2
Depreciation	-71.6			-71.6

Income statement 2005 MEUR	Power Businesses	Imatra Steel	Holdings	Unallocated	Group
Net sales	2,520.3	119.0			2,638.8
Operating result	202.5	21.8			224.3
Financial income and expenses,dividends			5.8	-29.2	-23.4
Net income from assets available for sales			0.5		0.5
Share of associated company shares			10.4	0.5	10.9
Profit before taxes					212.4
Assets	2,389.7		385.3	93.7	2,868,6
Liabilities	1,597.0			108.7	1,705.7
Investments	204.5	3.4	23.2		231.1
Depreciation	-67.2	-4.4			-71.6

Geographical segments	Europe	Asia	Americas	Other	Group
Net sales 2006	1,244.7	1,140.8	582.3	221.8	3,189.6
Net sales 2005	1,108.8	951.0	395.4	183.6	2,638.8

GROSS CAPITAL EXPENDITURE

MEUR	2006	2005
Investments in securities and acquisitions		
Power Businesses	86.4	152.2
Other investments		
Power Businesses	106.8	75.6
Imatra Steel		3.4
Total	106.8	79.0
Group	193.2	231.1

IMPACT OF ACQUISITIONS ON THE CONSOLIDATED BALANCE SHEET

During the reporting period Wärtsilä has acquired Wärtsilä Automation Norway A/S in Norway, DTS-Zwolle B.V in the Netherlands, Total Automation Group in Singapore, a service company INTEC Injectortechnic GmbH in Germany, a Swedish ship repair company Stockholms Fartygsreparationer AB and a German ship design company SCHIFFKO GmbH.

MEUR	2006
Acquisition costs	96.0
Acquired assets	40.7
Goodwill	55.3
Specification of acquired assets:	
Tangible and intangible assets	34.2
Inventories	15.5
Receivables	26.5
Cash and cash equivalents	10.8
Defferred tax liabilities	-8.0
Other liabilities	-38.3
Total	40.7

INTEREST-BEARING LOAN CAPITAL

MEUR	31 Dec. 2006	31 Dec. 2005
Long-term liabilities	204.6	229.4
Current liabilities	65.8	174.2
Loan receivables	-36.3	-28.1
Cash and bank balances	-179.4	-119.6
Net	54.7	255.9

FINANCIAL RATIOS	2006	2005
Earnings per share, EUR	3.72	1.80
Diluted earnings per share, EUR	3.71	1.78
Shareholders' equity per share, EUR	12.74	12.25
Solvency ratio, %	47.0	46.6
Gearing	0.07	0.24

PERSONNEL

On average	2006	2005
Power Businesses	13 264	11 625
Imatra Steel[1]		424
Group	13 264	12 049
Personnel at end of period	14 346	12 008

[1]During 2005 Imatra Steel has been consolidated for four months.

CONTINGENT LIABILITIES MEUR	31 Dec. 2006	31 Dec. 2005
Mortgages	20.4	15.0
Chattel mortgages	21.1	23.1
Total	41.5	38.1
Guarantees and contingent liabilities on behalf of Group companies	316.8	290.0
Nominal amount of rents according to leasing contracts	50.1	37.4
Total	366.9	327.4

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS MEUR	Total amount	of which closed
Interest swaps	140.0	
Foreign exchange forward contracts	1,031.2	114.5
Currency options, purchased	22.4	
Currency options, written	7.7	

INCOME STATEMENT, QUARTERLY MEUR	10-12/06	7-9/06	4-6/06	1-3/06	10-12/05	7-9/05
Net sales						
Power Businesses	985.9	766.8	845.0	591.9	773.5	607.8
Operating result						
Power Businesses	99.2	56.3	70.2	35.9	86.1	43.5
Financial income & expenses	-7.6	1.4	1.7	-2.6	-4.0	-9.9
Net income from assets available for sale			123.9			0.5
Share profit of associates	49.7	3.7	8.3	6.7	0.9	2.9
Profit before taxes						
Power Businesses & Holdings	141.3	61.4	204.1	40.0	83.0	36.9
Earnings per share, EUR	1.13	0.44	1.60	0.55	0.75	0.32

Mission

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

Vision

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

WÄRTSILÄ

Wärtsilä Corporation
John Stenbergin ranta 2
B.O. Box 196
FI-00531 Helsinki Finland
Tel. +358 10 709 0000
Fax +358 10 709 5700
www.wartsila.com