

Notes to the Consolidated Financial Statements

1. Segment information

The business of Wärtsilä consists of one business area, the Power Businesses. The Power Businesses are subdivided into two mutually supportive market areas, Ship Power and Power Plants. These offer customers the same product concept modified for specific applications. The main products for both these markets are gas and diesel engines and related services. The market segments are highly dependent on each other.

In the Power Businesses the design-related research and development and manufacturing required for the engines sold to both markets take place in the same R&D centres and factories, and the manufacturing process is the same for each market. Similarly, the same Group companies are responsible for the distribu-

tion of these products and the services related to them. Capacity costs cannot be reliably allocated to the two different markets. These costs are significant and vary between the two units in different years. Customers in both markets are capital-intensive corporations with global operations. Development of the two market areas is strongly linked to global economic trends.

As geographical segments Wärtsilä reports the geographical areas Europe, America, Asia and other continents. In the geographical segments net sales is split by the customer's destination and assets and investments by origin. Non-allocated assets and liabilities consist of tax assets and liabilities.

Geographical segments 2007

MEUR	Europe	Asia	Americas	Other	Non-allocated	Group
Net sales	1 442	1 432	520	369		3 763
Assets	2 939	453	231	45	81	3 749
Investments	199	24	6	2		231

Geographical segments 2006

MEUR	Europe	Asia	Americas	Other	Non-allocated	Group
Net sales	1 245	1 141	582	222		3 190
Assets	2 416	368	276	33	94	3 188
Investments	127	60	5	1		193

2. Acquisitions

Acquisitions 2007

Overall impact on performance

MEUR	Booked in income statement 2007	On full-year pro forma performance
Net sales	15	3 798
Operating income	1	382

In full-year pro forma performance the estimated impact of acquisitions on the consolidated financial statements is presented as if all the acquisitions were made on 1 January.

Acquisitions

The Swedish company Senitec AB was acquired in February. The company specializes in environmental technology products for separating waste, such as oily water and sludge, in power plants, harbours and ships. The new business gives Wärtsilä the possibility to expand its offering of environmental solutions in waste management and it supports the Group's strategy to provide total solutions and packages to customers.

In February Wärtsilä acquired also the propeller repair business of the South African company Marine Propeller (Pty) Ltd. located in Cape Town. The acquisition expands Wärtsilä's offering in South Africa to include propeller repair. The knowledge, good reputation and customers that Marine Propeller will bring provide a good basis for this.

McCall Propellers Ltd., the largest UK-based marine propulsion support services company specializing in emergency repair of propeller equipment, was acquired in May. The knowledge and experience in propeller repair that McCall Propellers brings to Wärtsilä further broadens the Group's comprehensive propulsion services offering globally.

In July Wärtsilä acquired the marine business of the UK-based Railko Ltd., a company specializing in synthetic stern tube bearing technology. The acquisition improves Wärtsilä's competitive position in oil-lubricated bearing systems and adds water-lubricated bearings to the Group's product portfolio.

The Scottish company Electrical Power Engineering (Scotland) Ltd. specializing in electrical power engineering solutions for marine, offshore, industrial and utilities segments, was acquired in August. The acquisition will further expand the Group's service offering and add depth to Wärtsilä's existing automation business.

Acquisition price	MEUR
Consideration paid in cash	42
Acquisition costs	1
	43
Acquired assets to fair value	-18
Goodwill	25
Cash flow from the acquisitions	
Consideration paid in cash	42
Costs attributable to the acquisitions	1
Cash and cash equivalents of the acquired companies	-2
	41

Specification of acquired assets

	Book value	Fair value
Intangible assets		14
Property, plant and equipment	1	1
Inventories	3	3
Receivables	9	9
Cash and cash equivalents	2	2
Liabilities	-6	-6
Deferred tax liabilities		-3
Total	8	18

The assets, liabilities and contingent liabilities of the companies are measured at fair value at the time of acquisition. Intangible assets include development projects and customer relations, the value of which is based on discounted cash flow over a useful life of 5–10 years. The goodwill calculated on these acquisitions is based mainly on synergic effects expected to materialize when the subsidiaries of the Group may start to utilize the acquired technology both in waste management and special services. In addition, Wärtsilä gained the expertise of the companies' personnel.

In addition to the above mentioned acquisitions, , Wärtsilä acquired 8.5% of Wärtsilä India Ltd. and at the end of the review period the percentage of ownership was 98.2%. The goodwill recognized was EUR 8 million.

Acquisitions 2006

Overall impact on performance

MEUR	Booked in income statement 2006	On full-year pro forma performance
Net sales	79	3 222
Operating income	8	265

Total Automation Group

The business operations and subsidiaries of Total Automation Ltd were acquired at the end of June. Holding a strong position in the offshore and gas production sector, Total Automation specializes in marine repair and maintenance services. The goodwill recognized by Wärtsilä is based on the expertise of the company's personnel and its corporate image, the value of which cannot be determined separately, as well as on other synergic effects expected to materialize when the company's automation services are fully integrated with Wärtsilä's Services business.

Total Automation's sales between June and December amounted to EUR 28 million.

Acquisition price, Total Automation Group

	MEUR
Consideration paid in cash	59
Acquisition costs	1
	60
Acquired assets to fair value	-23
Goodwill	37
Cash flow from the acquisition	
Consideration paid in cash	59
Costs attributable to the acquisition	1
Cash and cash equivalents of the Group acquired	-4
	56

Specification of acquired assets

	Book value	Fair value
Intangible assets	2	3
Property, plant and equipment	6	6
Holdings in Group and associated companies	1	1
Inventories	9	10
Receivables	11	11
Cash and cash equivalents	4	4
Liabilities	-11	-11
Deferred tax liabilities		-1
Total	22	23

The assets, liabilities and contingent liabilities of this company are measured at their fair value at the time of acquisition. Intangible assets include trademarks and customer relations, the value of which is based on the discounted cash flow over the following 5-year period. Two partly owned subsidiaries of the Singaporean subgroup were sold after the acquisition. These companies have been valued at the time of acquisition at a disposal price of EUR 1 million.

Other acquisitions

Wärtsilä Automation Norway A/S (formerly Aker Kvaerner Power and Automation Systems AS) was acquired in February from the Norwegian Aker Kvaerner. The company supplies propulsion and automation systems for oil, gas and marine applications and for industrial purposes. The acquisition supports Wärtsilä's growth strategy and broadens its product range. The company's sales between March and December totalled EUR 39 million.

Diesel Technology Solutions BV, a Dutch company, was acquired in February, increasing the Group's manufacturing capacity. The company mainly operates as a supplier to the Group's other manufacturing units.

The German company INTEC Injectortechnik GmbH was acquired at the beginning of July, giving the Group additional expertise in fuel injection technology and related services.

The Group's Swedish subsidiary acquired the business operations of Stockholms Fartygsreparationer AB in October. This acquisition provides a platform for future expansion on Sweden's east coast.

SCHIFFKO, a German ship design group, was acquired in December. SCHIFFKO specializes in the planning and design of marine vessels. The acquisition supports the strategic focus to grow as a system integrator and provider of total solutions to the shipping and shipbuilding market.

Acquisition price of above acquisitions

	MEUR
Consideration paid in cash	35
Acquisition costs	1
	36
Acquired assets to fair value	-18
Goodwill	18

Cash flow from the acquisition

Consideration paid in cash	35
Costs attributable to the acquisitions	1
Cash and cash equivalents of the acquired companies	-7
	29

Specification of acquired assets

	Book value	Fair value
Intangible assets		11
Property, plant and equipment	13	13
Inventories	5	5
Receivables	16	16
Cash and cash equivalents	7	7
Liabilities	-27	-27
Deferred tax liabilities	-3	-7
Total	11	18

The assets, liabilities and contingent liabilities of the companies are measured at fair value at the time of acquisition. Intangible assets include development projects, customer relations and licence agreements, the value of which is based on discounted cash flow over a useful life of 5–10 years. The goodwill calculated on these acquisitions is based mainly on the expertise of the companies' employees and on synergies that will materialize as the Group gains both additional capacity and a broader product range.

3. Long-term construction contracts and long-term operating and maintenance agreements

Long-term construction contracts		
MEUR	2007	2006
Net sales in the income statement	372	203

Long-term construction projects in progress		
MEUR	2007	2006
Cumulative net sales	727	572
Cumulative result	82	-5
Advances received at 31 December	524	490
Trade receivables from the revenue recognition netted with the advances received at 31 December	74	9

Long-term operating and maintenance agreements		
MEUR	2007	2006
Net sales in the income statement	171	158

4. Other income

MEUR	2007	2006
Rental income	1	1
Profit on sales of fixed assets	7	7
Government grants	6	6
Sale of by-products	3	3
Other income	4	7
Total	21	25

5. Material and services

MEUR	2007	2006
Raw material and consumables		
Purchases during the financial year	-1 369	-1 251
Change in inventories	129	91
External services	-1 009	-796
Total	-2 249	-1 955

6. Employee benefit expenses

MEUR	2007	2006
Wages and salaries		
Pension costs		
Defined benefit plans	8	8
Other pension and past service costs	43	38
Other compulsory personnel costs	85	72
Total	728	629

Salaries paid to the management are specified in Note 30.

A provision of EUR 4 million (2) for expenses arising from the bonus schemes tied to the price development of the company's B-share has been booked in the income statement. The provision amount is based on the market value of the B-share on 31 December with a two-year lead time.

The 2005 bonus scheme comprises 625,000 bonus rights and the 2006 bonus scheme 650,000 bonus rights. The bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 27.50 for the 2005 bonus scheme and EUR 42.89 for the 2006 bonus scheme taking into account a 50% dividend payout. The bonus can not exceed EUR 6 per bonus right.

	2007	2006
Personnel on average	15 337	13 264

7. Depreciation

Depreciation according to plan		
MEUR	2007	2006
Intangible rights	4	5
Other intangible assets	26	23
Buildings and structures	9	7
Machinery and equipment	37	33
Other tangible assets	2	3
Total depreciation according to plan	78	72

8. Financial income and expenses

MEUR	2007	2006
Dividend income on available-for-sale investments		
Dividend income on available-for-sale investments	7	8
Interest income on loans and other receivables		
Interest income on loans and other receivables	8	4
Interest income on financial assets/liabilities at fair value through income statement		
Interest income on financial assets/liabilities at fair value through income statement	8	6
Changes in fair values of financial assets/liabilities at fair value through income statement		
Changes in fair values of financial assets/liabilities at fair value through income statement	1	4
Exchange rate differences¹		
Exchange rate differences ¹	2	3
Other financial income		
Other financial income	1	11
Total financial income	26	36
Interest expenses on financial liabilities measured at amortized cost		
Interest expenses on financial liabilities measured at amortized cost	-18	-17
Interest expenses on financial assets/liabilities at fair value through income statement		
Interest expenses on financial assets/liabilities at fair value through income statement	-13	-22
Other financial expenses		
Other financial expenses	-2	-4
Total financial expenses	-34	-43
Total financial income and expenses	-8	-7

¹ Includes the result from the ineffective portion of cash flow hedges, EUR 1 million.

9. Income taxes

MEUR	2007	2006
Income taxes on operations		
for the financial year	-88	-107
for prior years	5	-2
Change in deferred taxes	-23	14
Total	-106	-94
Profit before taxes	372	447
Tax calculated at the domestic corporate tax rate (26%)	-97	-116
Effect of changed tax rates	2	-2
Effect of different tax rates in foreign subsidiaries	-1	-4
Effect of income not subject to tax and non-deductible expenses	-5	-5
Utilization of previously unrecognized tax losses carried forward	3	34
Unrecognized taxes on losses carried forward	-5	-6
Other taxes	-8	-5
Effect of share of profit of associates		18
Other temporary differences	-2	-6
Income taxes for prior years	5	-2
Tax charge in the consolidated income statement	-106	-94

10. Earnings per share

Earnings per share is calculated by dividing the profit for the period attributable to shareholders by the weighted average number of the shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number by the dilutive effect of stock options outstanding during the period. The options have a dilutive effect if the exercise price with an option is lower than the market value of the share. Additional information on the option schemes (Option schemes 2001 and 2002) is presented in Note 23.

MEUR	2007	2006
Profit attributable to equity holders of the parent company (basic/diluted)	262	351
Thousands of shares		
Weighted average number of shares outstanding	95 751	94 429
Effect of issued share options	206	332
Diluted weighted average number of shares outstanding	95 957	94 760
Basic earnings per share (EUR)	2.74	3.72
Dilutes earnings per share (EUR)	2.73	3.71

11. Intangible assets

Impairment testing of goodwill

Goodwill from acquisitions is allocated to the Group's cash-generating units (CGUs) being the lowest level of assets for which there are separately identifiable cash flows. Currently Wärtsilä identifies 3 separate independent cash inflow CGUs to which goodwill can directly be linked as per the below table. In addition the goodwill allocated for companies acquired during the current period has been subject for impairment testing separately. These companies have all been integrated into the Power Business operations and will not constitute a separately identifiable CGU in the future.

Cash-Generating Units (CGU)

MEUR	Goodwill	
	2007	2006
Automation	36	37
Ship design	4	
Propulsion*		259
Acquired companies during the period	33	
Power Businesses, other	372	121
Total	445	417

*The Propulsion companies have been integrated into the Power Business operations during 2007 and hence do not constitute a separately identifiable CGU on 31st of December 2007.

The recoverable amounts from the CGUs are determined based on value-in-use calculations. The calculations are on a discounted cash flow method basis, derived from 5-year cash flow projections from management approved strategic plans. The estimated performances of the CGUs are based on utilization of the existing property, plant and equipment in their current condition with normal maintenance capital expenditure and excluding any potential future acquisitions. Cash flows beyond the five-year period are calculated using the terminal value method. The terminal growth rate used in projections is based on management's assessment on conservative long term growth. The terminal growth rate used varies from 0% to 2% based on country and business characteristics.

The key driver for the valuation of the CGU Power Business is the growth in the global economy and in particular the development of the global power market, the global shipbuilding industry

and demand for related services. The projected development of total costs in the market affects the profitability, whereas any single cost item has not been seen as having material impact. The valuation drivers for the new equipment sales are the growth in the global economy whereas for after sales the drivers are also the demand for related services and projected development in labour cost.

The used discount rate is the weighted average pre-tax cost of capital (WACC) as defined by Wärtsilä. The components of the WACC are risk-free rate, market risk premium, industry specific beta, cost of debt and debt equity ratio. Wärtsilä has used a WACC of 9.2% (2006: 8.0%) in the calculations.

As a result of the impairment test no impairment loss was recognized for the period ended December 31, 2006 and 2007 respectively.

Sensitivity analysis

Sensitivity analyses have been carried out for the valuation of each Cash Generating Unit by making downside scenarios. These downside scenarios were created by changing the underlying assumptions in the valuations such as;

- Lowering the sales growth by 1% to 15%
- Lowering the terminal growth rate by 1% to 50%
- Lowering the EBIT profitability by 1% to 10%
- Increasing the WACC by 1% to 15%

According to the performed sensitivity analyses none of the downside scenarios would change the long term key assumptions on which Wärtsilä's recoverable amounts are based and would not cause their respective values to fall short of their carrying amounts at December 31, 2007. As a result of performed impairment tests, there is no need for write-downs of the goodwill in a particular cash generating unit.

In management's opinion changes in the basic assumptions provided in these theoretical downside scenarios shall not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total 2007
Acquisition cost at 1 January 2007	62	9	262	417	750
Changes in exchange rates				-6	-6
Acquisitions			13	33	47
Additions	25	8	1		33
Intra-balance sheet transfer	-19	-3	22		
Acquisition cost at 31 December 2007	68	14	297	445	824
Accumulated depreciation at 1 January 2007					
	-29		-118		-147
Depreciation during the financial year	-4		-26		-30
Intra-balance sheet transfer	2		-2		
Accumulated depreciation at 31 December 2007	-32		-146		-178
Book value at 31 December 2007	37	14	151	445	646

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total 2006
Acquisition cost at 1 January 2006	53	9	223	366	649
Changes in exchange rates				-4	-4
Acquisitions	4		10	55	69
Additions	6	9	7		22
Disposals			-1		-1
Intra-balance sheet transfer		-8	23		14
Acquisition cost at 31 December 2006	62	9	262	417	750
Accumulated depreciation at 1 January 2006					
	-24		-84		-108
Depreciation during the financial year	-5		-23		-28
Intra-balance sheet transfer			-12		-12
Accumulated depreciation at 31 December 2006	-29		-118		-147
Book value at 31 December 2006	33	9	144	417	602

12. Property, plant and equipment

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress & advances paid	Other tangible assets	Investment properties	Total 2007
Acquisition cost at 1 January 2007	15	174	478	32	68	15	782
Changes in exchange rates		1	3		1		5
Companies sold			-4		-14		-17
Additions		27	54	48	3		133
Disposals	-1	-5	-9		-1	-2	-19
Intra-balance sheet transfer		7	6	-16	3		
Acquisition cost at 31 December 2007	14	203	529	64	60	13	884
Accumulated depreciation at 1 January 2007		-96	-324		-46		-467
Changes in exchange rates			-2				-2
Accumulated depreciation on disposals		2	8				10
Depreciation during the financial year		-9	-37		-2		-48
Intra-balance sheet transfer		-1			1		
Accumulated depreciation at 31 December 2007		-103	-355		-47		-506
Book value at 31 December 2007	14	100	174	64	13	13	377
Value of finance-leased assets included in book value			11		1		12

Investment properties include land areas not used by the Group. Their estimated market value is around EUR 35 million. During the period, investment properties were sold totalling EUR 12 million (9) generating a profit of EUR 6 million (6).

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress & advances paid	Other tangible assets	Investment properties	Total 2006
Acquisition cost at 1 January 2006	18	155	443	13	73	17	718
Changes in exchange rates		-2	-7		-1		-11
Acquisitions		5	13				18
Additions		8	46	28	2		84
Disposals	-1	-3	-14	-1	-1	-2	-22
Intra-balance sheet transfer	-3	11	-2	-8	-5		-6
Acquisition cost at 31 December 2006	15	174	478	32	68	15	782
Accumulated depreciation at 1 January 2006		-86	-311		-47		-445
Changes in exchange rates		1	3		1		5
Accumulated depreciation on disposals		2	12		1		15
Depreciation during the financial year		-7	-33		-3		-44
Intra-balance sheet transfer		-6	5		3		1
Accumulated depreciation at 31 December 2006		-96	-324		-46		-467
Book value at 31 December 2006	15	78	154	32	22	15	315
Value of finance-leased assets included in book value		1	9		1		10

During the year investments in the factories in Vaasa, Finland and Trieste, Italy amounted to EUR 33 million, and Wärtsilä had commitments related to the investment programmes amounting to EUR 2 million at the end of the year. The investment in the enlargement of propulsion equipment manufacturing in the Netherlands and China amounted to EUR 17 million during the review period, and Wärtsilä had commitments related to the enlargements amounting to EUR 7 million at the end of the year. In addition, Wärtsilä's commitment related to the investment programme in the Korean joint venture Wärtsilä Hyundai Engine Company Ltd. amounted to EUR 12 million at the end of the year.

13. Investments in associated companies

MEUR	2007	2006
Book value at 1 January	9	108
Acquired shares	12	
Share of results	1	68
Dividends	-1	
Selling / decrease of shares	-5	-168
Book value at 31 December	16	9

Summary financial information on associates (100%):

2007

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Oy Ovako Ab ¹	Finland	26.5	2		2		
Qingdao Qiyao Wärtsilä MHI							
Lindhan Marine Diesel Co Ltd.	China	27.0	58	21	37		
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	14	7	7	35	2
Wärtsilä Land and Sea Academy Inc.	Philippines	40.0	1			1	
AWEK Industrial Patents Ltd. Oy	Finland	25.0	1			2	
Repropel Sociedad de reparacao de helices	Portugal	50.0	1		1	1	
WD Power Investment Ky	Finland	21.7	3		3		

2006

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Oy Ovako Ab	Finland	26.5	666 ²	6	660 ²	1 200	282
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	16	10	6	31	2
AWEK Industrial Patents Ltd. Oy	Finland	25.0	1			2	
Repropel Sociedad de reparacao de helices	Portugal	50.0	1	1	0		
WD Power Investment Ky	Finland	21.7	6		6		

¹ Oy Ovako Ab is under liquidation.

² At the end of 2006, the Assets and Equity of Oy Ovako Ab include the pre-liquidation payment paid to owners as an advance.

In July 2006, the three owners of Oy Ovako Ab – Rautaruukki, SKF and Wärtsilä – decided to sell the operating companies to a company owned by Hombergh Holdings BV's shareholders, WP de Pundert Ventures BV and Pampus Industrie Beteiligungen GmbH & Co. KG at a price of approximately EUR 660 million, of which Wärtsilä received EUR 175 million net of costs. The transaction was executed on 17 November 2006 with Ovako selling its subsidiary and the owners decided thereafter to liquidate the holding companies. Ovako paid a large part as pre-liquidation proceeds to the owners, and the owners have given guarantees for any commitments that may arise. Ovako's impact on the consolidated financial statements is described in the following summary.

Ovako's impact on the consolidated financial statements in 2006:

MEUR	
Impact on the consolidated income statement 2006	
Share of profit of associates	
Operational result	18
Liquidation proceeds	49
	<hr/>
	67
Impact on the consolidated balance sheet at 31 December 2006	
Shares in associated companies	6
Interest-bearing receivables	29
Non-interest-bearing receivables	4
Received pre-liquidation payment	136
	<hr/>
	175

14. Joint ventures

The Group has a 50% interest in the joint venture company Wärtsilä Qiyao Diesel Company Ltd. in Shanghai, China. The other owner is China Shanghai Marine Diesel Research Institute, a subsidiary of China Shipbuilding Industry Corporation (CSIC).

During the reporting period, Wärtsilä and Hyundai Heavy Industries Co Ltd. set up a joint venture, Wärtsilä Hyundai Engine Co Ltd., which will start to manufacture dual-fuel engines for LNG carriers. The factory is under construction. Wärtsilä's ownership of the company is 50%.

Summary financial information on joint ventures (100%):

2007 MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	25	15	10	23	
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	37	5	32		

2006 MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	11	2	9		

15. Available-for-sale investments

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

MEUR	2007	2006
Book value at 1 January	183	284
Changes in exchange rates	-2	-2
Disposals	-2	-25
Fair value adjustment	-25	34
Book value at 31 December	155	183

Selling profit in the income statement

124

Selling profit in 2006 concerns the sale of Assa Abloy AB shares.

MEUR	2007		2006	
	Acquisition cost	Market value	Acquisition cost	Market value
Shares				
Sampo plc	4	34	4	39
Assa Abloy AB	18	100	18	120
Listed shares	22	134	22	158
Other shares	21	21	24	24
Total shares	43	155	46	183

16. Inventories

MEUR	2007	2006
Materials and consumables	545	416
Work in progress	399	316
Finished goods	51	74
Advances paid	86	31
Total	1 081	837

17. Financial assets and liabilities by measurement category

2007	Financial assets/ liabilities at fair value through income statement	Loans and receivables	Available- for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value
MEUR						
Non-current financial assets						
Investments available for sale			155		155	155
Interest-bearing investments		12			12	12
Other receivables		7			7	7
Current financial assets						
Interest-bearing receivables		2			2	2
Trade receivables		874			874	874
Other receivables	26	20			46	46
Cash and cash equivalents	296				296	296
Carrying amount by category	322	915	155		1 392	1 392
Non-current financial liabilities						
Interest-bearing debt				245	245	245
Other liabilities				3	3	3
Current financial liabilities						
Interest-bearing debt				38	38	38
Trade payables				348	348	348
Other liabilities	2			21	23	23
Carrying amount by category	2			655	657	657
2006						
MEUR						
Non-current financial assets						
Investments available for sale			183		183	183
Interest-bearing investments		35			35	35
Other receivables		8			8	8
Current financial assets						
Interest-bearing receivables		1			1	1
Trade receivables		772			772	772
Other receivables	9	18			27	27
Cash and cash equivalents	179				179	179
Carrying amount by category	188	834	183		1 205	1 205
Non-current financial liabilities						
Interest-bearing debt				205	205	205
Other liabilities				1	1	1
Current financial liabilities						
Interest-bearing debt				66	66	66
Trade payables				271	271	271
Other liabilities				13	13	13
Carrying amount by category				556	556	556

18. Other receivables

MEUR	2007	2006
Interest receivables	1	1
Other financial items	29	17
Insurance receivables	2	3
Rental receivables	4	3
Project accruals	11	6
Other accruals	37	37
Loan receivables	16	9
VAT receivables	57	40
Other receivables	51	42
Total	208	159
Non-current	7	8
Current	201	151

19. Cash and cash equivalents

MEUR	2007	2006
Cash and bank balances	274	164
Financial assets	23	15
Total	296	179

20. Deferred taxes

MEUR	2007	2006
Deferred tax assets		
Tax loss carry-forwards	24	43
Pension obligations	3	3
Provisions	15	9
Eliminating the intra group profit in stock	14	12
Other temporary differences	15	19
Total	70	87
Deferred tax liabilities		
Intangible assets and property, plant and equipment	16	10
Fair value adjustments	42	45
Other temporary differences	23	19
Total	81	74
Net deferred tax liabilities/assets	-11	13

At 31 December 2007 the Group had temporary differences on which no deferred tax receivables were booked totalling EUR 40 million (45), as it is uncertain if they will be realized. Most of them were related to cumulative losses.

Change in deferred taxes during 2007

MEUR	1 January 2007	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions	31 December 2007
Deferred tax assets						
Tax loss carry-forwards	43	-19				24
Pension obligations	3					3
Provisions	9	5				15
Eliminating the intra group profit in stock	12	2				14
Other temporary differences	19	-4				15
Total	87	-16		-1		70
Deferred tax liabilities						
Intangible assets and property, plant and equipment	10	3			3	16
Fair value adjustments	45		-3			42
Other temporary differences	19	4				23
Total	74	7	-3		3	81
Net deferred tax assets / liabilities	13	-23	3	-1	-3	-11

Change in deferred taxes during 2006

MEUR	1 January 2006	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions	31 December 2006
Deferred tax assets						
Tax loss carry-forwards	41	3				43
Pension obligations	5	-2				3
Provisions		9				9
Fair value adjustments						
Group eliminations	11	1				12
Other temporary differences	21	-2		-1		19
Total	78	10		-1		87
Deferred tax liabilities						
Intangible assets and property, plant and equipment	7	-4			7	10
Fair value adjustments	56	-5	-7			45
Other temporary differences	16	4				19
Total	79	-5	-7		7	74
Net deferred tax liabilities / assets	-1	14	7	-1	-7	13

21. Pension obligations

MEUR	2007	2006
Recognised net liability for defined benefit obligations	20	23
Long-service leave and other past service obligations	25	30
Total past service obligations at 31 December	45	53

Pension cover is based on the legislation and agreements in force in each country. In Finland most of the pension obligations are covered by the Employee Pensions system (TEL). The largest defined benefit plans are used in the Netherlands, Switzerland and the United Kingdom. Most of these defined benefit pension plans are managed by pension funds and their assets are not included in the Group's assets. Wärtsilä's subsidiaries make their payments to pension funds in accordance with the local legislation and practice in each country. Authorized actuaries in each country have performed the actuarial calculations required for the defined benefit plans. During the year one defined benefit pension plan in Holland was fully waived to a branch pension plan, which is a multiemployer plan and qualifies as a defined contribution plan. The waiver reduced the reported pension obligation by EUR 87 million, the plan assets by EUR 82 million and unrecognised actuarial loss by EUR 5 million.

Long-service leave and other past service obligations are mainly obligation for severance pay in Italy and France.

	2007	2006
Movement in defined benefit obligations		
Defined benefit obligations at 1 January	307	293
Exchange rate differences	-6	-4
Current service costs	9	9
Interest cost	8	8
Benefits paid	-12	-11
Changes in actuarial gains and losses	-5	10
Impact of acquired and disposed companies and other changes	-89	3
Defined benefit obligations at 31 December	212	307

	2007	2006
Movement in plan assets		
Fair value of plan assets at 1 January	295	292
Exchange rate differences	-5	-5
Contribution paid to the fund	12	10
Benefits paid by the plan	-12	-10
Expected return on plan assets	9	8
Actuarial gains and losses	-2	-1
Impact of acquired and disposed companies and other changes	-94	
Fair value of plan assets at 31 December	202	295
Unrecognised assets	-5	-16
Recognised fair value of plan assets at 31 December	197	279

Unrecognized actuarial gain loss	2007	2006	
Unrecognised actuarial gain loss at beginning of year	-5	6	
Exchange rate differences			
Actuarial gain loss for year—obligation	8	-10	
Actuarial gain loss for year—plan assets	-2	-1	
Impact of acquired / disposed companies and other changes	5		
Total	5	-5	
Actuarial gain loss recognised			
Unrecognised actuarial gain loss at the year end	5	-5	
Recognised net liability for defined benefit obligations	20	23	
Expenses recognised in income statement			
Current service costs	9	9	
Interest on obligation	8	8	
Expected return on plan assets	-9	-8	
Gains and losses on curtailments and settlements	-1		
Defined benefit expenses	8	8	
Actual return on plan assets	6	7	
Historical information	2007	2006	2005
Present value of the defined benefit obligation	212	307	293
Fair value of plan assets	-202	-295	-292
Deficit in the plan	9	12	1
Actuarial assumptions 2007	Europe	Other	
Discount rate (%)	3.0–5.9	2.0–10.0	
Expected return on plan assets (%)	4.0–7.8	2.5–10.0	
Future salary increases (%)	1.5–4.4	1.0–9.0	
Actuarial assumptions 2006	Europe	Other	
Discount rate (%)	3.0–5.1	2.0–10.0	
Expected return on plan assets (%)	4.0–6.9	2.5–10.0	
Future salary increases (%)	1.2–4.0	1.0–10.0	

22. Share capital of the parent company

Share capital	A-shares	Number of B-shares	Number of shares, total	Number of capital	Share premium	Share issue Total
1 January 2006	23 579 587	70 527 529	94 107 116	329	44	373
Bonds with options subscribed		1 447 236	1 447 236	5	14	19
31 December 2006	23 579 587	71 974 765	95 554 352	334	58	392
Bonds with options subscribed		415 209	415 209	1	3	4
31 December 2007	23 579 587	72 389 974	95 969 561	336	61	397

23. Option rights

Changes in option rights 2007	Option scheme 2001		Option scheme 2002		Total	
	Option rights	Shares based on option rights	Option rights	Shares based on option rights		
1 January 2007	127 484	191 226	170 026	255 039	297 510	446 265
Shares subscribed with option rights	127 482	191 223	149 324	223 986	276 806	415 209
31 December 2007	2	3	20 702	31 053	20 704	31 056

Option rights for management

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

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

Under the terms and conditions of Wärtsilä's 2001 and 2002 option schemes, should the company increase its share capital with a bonus issue before the subscription of shares, the share subscription ratio shall be amended so that the ratio to the share capital of shares to be subscribed for by virtue of the options remains unchanged. Accordingly, the share subscription price as determined under the terms and conditions of the option schemes will be divided by 1.5 and two (2) options shall entitle their holder to subscribe for three (3) Wärtsilä Corporation B shares. The effect of the extra dividend on the share subscription price of the 2001 options is EUR 14.60 and on the share subscription price of the 2002 options EUR 7.40.

24. Fair value and other reserves

MEUR	Cash flow hedges	Other hedges	Investments available for sale	Total
Difference between fair value and book value at 1 January 2006	-13	-1	212	198
Deferred tax liabilities	3		-55	-51
Fair value and other reserves at 1 January 2006	-9	-1	157	147
Transferred to income statement, net of taxes	3		-81	-77
Fair value adjustments	45		34	79
Deferred tax liabilities	-12		-9	-20
Fair value and other reserves at 31 December 2006	27	-1	101	128
Transferred to income statement, net of taxes	-13			-12
Fair value adjustments	36		-24	12
Deferred tax liabilities	-8		6	-1
Fair value and other reserves at 31 December 2007	44	0	84	127

25. Provisions

2007

MEUR	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total 2007
Provisions at 1 January 2007	5	85	16	8	23	136
Changes in exchange rates		-1				-1
Additions	5	63	9		19	95
Used provisions	-2	-40	-11	-2	-9	-63
Released provisions			-1	-1	-1	-4
Provisions at 31 December 2007	7	107	12	6	31	164

Non-current 25
Current 139

2006

MEUR	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total 2006
Provisions at 1 January 2006	5	67	16	17	16	121
Changes in exchange rates		-1				-1
Additions	1	62	20		15	98
Used provisions	-2	-44	-19	-7	-6	-79
Released provisions			-1	-1	-1	-3
Provisions at 31 December 2006	5	85	15	8	23	136

Non-current 20
Current 117

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

26. Financial liabilities

2007

MEUR	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Loans from financial institutions ¹	28	144	87	259
Finance lease liabilities	3	8	3	13
Other interest-bearing loans	7			7
Non-interest-bearing loans	1	2		3
Trade payables	348			348
Other liabilities	23			23
Total	411	153	90	654

¹ Estimated interest expenses 11 26 11 48

2006

MEUR	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Loans from financial institutions	30	144	49	223
Finance lease liabilities	2	7	2	11
Other interest-bearing loans	3	3		6
Non-interest-bearing loans	1			1
Trade payables	271			271
Other liabilities	13			13
Total	320	154	51	525

Fair values of financial liabilities are presented in Note 17. Financial assets and liabilities by measurement category.

27. Other liabilities

MEUR	2007	2006
Project costs	360	307
Personnel costs	113	95
Interest and other financial items	23	13
Other accruals	61	52
VAT liabilities	3	2
Other liabilities	50	35
Total	608	504
Non-current	3	1
Current	605	503

28. Financial instruments

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

MEUR	2007	2006
Nominal values of derivative financial instruments		
Interest rate swaps	140	140
Currency forwards		
Transaction risk	1 005	832
Translation risk	279	199
Currency options, written		8
Currency options, purchased	34	22
Total	1 458	1 201

Fair values of derivative financial instruments

Interest rate swaps	2	3
Currency forwards		
Transaction risk	21	6
Translation risk	1	
Total	24	9

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

Currency distribution of currency forwards and currency options

MEUR	Transaction risk	Translation risk
Currency forwards		
USD	607	76
NOK	216	38
CHF	114	9
SGD	27	38
Others	39	118
	1 005	279
Currency options		
USD	34	
Total	1 039	279

29. Collateral, contingent liabilities and other commitments

MEUR	Balance sheet debt	2007 Collateral	Balance sheet debt	2006 Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	3	3	3	4
Pension loans	3	5	4	6
Other commitments	5	5	3	10
Total	11	13	10	20
Chattel mortgages given as collateral for liabilities and commitments				
Loans from credit institutions		3	3	3
Other commitments	4	5	6	18
Total	4	8	9	21
MEUR			2007	2006
Guarantees and contingent liabilities on behalf of Group companies			479	317
Nominal amounts of rents according to leasing contracts				
Payable within one year			16	12
Payable later			53	38
Total			69	50

In addition to these, the Group has guaranteed possible commitments related to the liquidation procedure of Oy Ovako Ab.

30. Related party disclosures

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

Salaries and bonuses paid to management

In thousands of euro	2007	2006
President and CEO		
Salaries and other short-term benefits	614	493
Bonuses	577	403
	1 191	897
Other members of the Board of Management		
Salaries and other short-term benefits	1 275	1 355
Bonuses	1 512	1 023
	2 788	2 378

Board of Directors, 31 December 2007

Antti Lagerroos, chairman	119	74
Göran J. Ehrnrooth, deputy chairman	82	50
Maarit Aarni-Sirviö, member	55	-
Heikki Allonen, member	58	36
Bertel Langenskiöld member	56	35
Matti Vuoria, member	58	35
Board of Directors, until 14 March 2007		
Risto Hautamäki, member	2	35
Jaakko Iloniemi, member	3	35
	433	301

Salaries and bonuses paid to management, total **4 412** **3 575**

The holdings of the President and CEO, and the members of the Board of Directors and Board of Management at the year end were as follows:

Options	-	65 000
Shares	111 818	72 477

The President and CEO and the members of the Board of Management are entitled to retire on reaching 60 years of age. The Group has no loan receivables from the executive management or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

31. Exchange rates

Business transactions with the associated companies

MEUR	2007	2006
Sales to the associates in the income statement	23	19
Receivables from the associates in the income statement	6	5
Advances paid to the associates in the balance sheet	15	
Payables to the associates in the balance sheet		1

Detailed financial information of the associated companies is presented in Note 13. Investments in associated companies.

	Closing rate 31 Dec. 2007	Closing rate 31 Dec. 2006	Average rate 2007	Average rate 2006
USD	1.47210	1.31700	1.37063	1.25566
GBP	0.73335	0.67150	0.68455	0.68182
SEK	9.44153	9.04037	9.25214	9.25332
NOK	7.95798	8.23798	8.01828	8.04628
DKK	7.45829	7.45601	7.45080	7.45913
CHF	1.65470	1.60690	1.64269	1.57308
JPY	164.93486	156.93660	161.23917	146.06250
SGD	2.11630	2.02020	2.06363	1.99398
INR	57.86367	58.22416	56.58386	57.00799

32. Subsidiaries

Company name	Location	Share %	Company name	Location	Share %
Wärtsilä Technology Oy Ab	Finland	100.0	Wärtsilä de Mexico SA	Mexico	100.0
Wärtsilä Finland Oy	Finland	100.0	Wärtsilä Caribbean, Inc.	Puerto Rico	100.0
Wärtsilä Biopower Oy	Finland	100.0	Wärtsilä Dominicana, Inc.	Dominican Republic	100.0
Wärtsilä Development & Financial Services Oy	Finland	100.0	Wärtsilä Lanka	Sri Lanka	100.0
Wärtsilä Nederland B.V.	The Netherlands	100.0	Wärtsilä Guatemala S.A.	Guatemala	100.0
Wärtsilä Nederland Kruiningen B.V.	The Netherlands	100.0	Wärtsilä Latin America Ltd.	Bermuda	100.0
Wärtsilä Automation Nederland B.V.	The Netherlands	100.0	Wärtsilä Chile Ltda.	Chile	100.0
DTS-Zwolle B.V.	The Netherlands	100.0	Wärtsilä Ecuador S.A.	Ecuador	100.0
Wärtsilä Italia S.p.A.	Italy	100.0	Wärtsilä do Brasil Ltda.	Brazil	100.0
Wärtsilä Switzerland Ltd.	Switzerland	100.0	Wärtsilä Colombia S.A.	Colombia	100.0
Wärtsilä France S.A.S.	France	100.0	Wärtsilä Peru S.A.	Peru	100.0
Wärtsilä Defence S.A.S.	France	100.0	Wärtsilä Argentina S.A.	Argentina	100.0
Whesoe S.A.	France	100.0	Wärtsilä Venezuela, C.A.	Venezuela	100.0
Wärtsilä Propulsion Netherlands B.V.	The Netherlands	100.0	Wärtsilä Panama, S.A.	Panama	100.0
Wärtsilä-CME Zhenjiang Propeller Co. Ltd	China	55.0	Wärtsilä Singapore Pte Ltd.	Singapore	100.0
Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	100.0	Total Automation Pte Ltd.	Singapore	100.0
Wärtsilä Danmark A/S	Denmark	100.0	Wärtsilä Vietnam Co Ltd.	Vietnam	100.0
Wärtsilä Sweden AB	Sweden	100.0	Wärtsilä China Ltd.	Hong Kong	100.0
Senitec AB	Sweden	100.0	Wärtsilä Engine (Shanghai) Co Ltd	China	100.0
Wärtsilä Norway A/S	Norway	100.0	Wärtsilä Shanghai Services Ltd.	China	100.0
Wärtsilä Ibérica S.A.	Spain	100.0	Wärtsilä Korea Ltd.	South Korea	100.0
Wärtsilä Propulsion Spain S.A.	Spain	100.0	Wärtsilä Taiwan Ltd.	Taiwan	96.7
Wärtsilä Portugal Lda.	Portugal	100.0	Wärtsilä Philippines Inc.	Philippines	100.0
Wärtsilä Deutschland GmbH	Germany	100.0	PT. Wärtsilä Indonesia	Indonesia	100.0
SCHIFFKO GmbH	Germany	100.0	Wärtsilä Australia Pty Ltd.	Australia	100.0
Wärtsilä BLRT Estonia Oü	Estonia	51.7	Wärtsilä India Ltd.	India	98.2
Wärtsilä BLRT Services Klaipeda UAB	Lithuania	51.0	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0
Deep Sea Seals Ltd.	Great Britain	100.0	Wärtsilä Bangladesh Ltd.	Bangladesh	100.0
Wärtsilä UK Ltd.	Great Britain	100.0	Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	60.0
Whesoe Total Automation Ltd.	Great Britain	100.0	Wärtsilä Gulf FZE	United Arab Emirates	100.0
McCall Propellers Ltd.	Great Britain	100.0	Wärtsilä Ships Repairing & Maintenance LLC	United Arab Emirates	100.0
Electrical Power Engineering Ltd.	Great Britain	100.0	Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0
Wärtsilä Ireland Ltd.	Ireland	100.0	Wärtsilä Eastern Africa Ltd	Kenya	100.0
Wärtsilä Polska Sp.z.o.o.	Poland	100.0	Wärtsilä West Africa S.A.	Senegal	100.0
Wärtsilä Greece S.A.	Greece	100.0	Wärtsilä Central Africa S.A.	Cameroon	100.0
Wärtsilä-Enpa A.S.	Turkey	51.0	Wärtsilä Japan Company Ltd	Japan	99.7
Wärtsilä Arab Mediterranean Power Ltd	Egypt	100.0	Chuwac Engineering Pte Ltd	Singapore	99.7
Wärtsilä Lips Inc.	USA	100.0	Wärtsilä Vostok LLC	Russia	100.0
Wärtsilä North America, Inc.	USA	100.0	Wärtsilä Azerbaijan LLC	Azerbaijan	100.0
Wärtsilä Development & Financial Services Inc.	USA	100.0	Vulcan Insurance Ltd.	Great Britain	100.0
Wärtsilä Operations, Inc.	USA	100.0			
Wärtsilä Canada Inc.	Canada	100.0			

A complete list of shares and securities in accordance with the Finnish Companies Act is included in the official financial statements of the parent company.

33. 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. The estimated future commercial exposures are evaluated by the Businesses and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS is applied to most of the hedges of these exposures. The hedges cover such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its balance sheet position, which includes receivables and payables denominated in foreign currencies. The Group does not expect significant exchange rate losses from any changes in foreign exchange rates in 2008. Some 69% of sales and 65% of operating costs in 2007 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, their nominal values and currency distribution used to hedge the Group's foreign exchange exposures are listed in Note 28.

Since Wärtsilä has subsidiaries outside the euro zone, the Group's shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2007 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 359 million, of which EUR 271 million was hedged. The ineffective portion of the equity hedges was not significant.

IFRS hedge accounting has been applied to EUR 832 million currency forwards. In 2007 EUR 36 million fair value adjustments related to cash flow hedges were booked in equity. EUR 17 mil-

Currency distribution 2007

	Net sales	Operating cost
Euro zone	69%	65%
USD	13%	8%
NOK	3%	6%
CHF	2%	4%
Other EU	3%	4%
SGD	2%	2%
Other	9%	10%
	100%	100%

lion of the fair value adjustments were transferred from equity to the income statement as net sales or operating expenses during 2007. The result from ineffective portion of the cash flow hedges, EUR 1 million, has been booked in financial items.

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 2007 totalled EUR 283 (270) million. The average interest rate was 4.9% (3.8%) and the average re-fixing time 7 (10) months. Additional information on debt is provided in Notes 17 and 26. At the end of 2007 a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 3 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 2007 the floating rate portion of total loans was 39% after adjustment for interest rate derivatives. A one percentage point change in the interest level would cause a EUR 1 million change in the following year's interest expenses of the debt portfolio, including 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 375 million.
- Finnish Commercial Paper programmes totalling EUR 600 million.

The average maturity of the long-term loans is 49 months and the average maturity of the confirmed credit lines is 29 months.

Wärtsilä Group's liquidity is good. Wärtsilä had cash and cash equivalents totalling EUR 296 million at the year end as well as EUR 375 million non-utilized committed credit facilities and substantial Commercial Paper programmes. Wärtsilä minimizes its refinancing risk by having a balanced and sufficiently long loan portfolio.

Credit risk

The responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group companies. Major trade and project finance credit risks are minimized by transferring risks to banks, insurance companies and export credit organizations. The company's long-term suppliers' credits granted mainly for emerging markets totalled EUR 1 million at the end of 2007. No losses were recorded on suppliers' credits.

Wärtsilä has a Vendor Note receivable and some other minor receivables totalling EUR 13 million, maturing within 5 years, from the new owners of the sold Oy Ovako Ab shareholding.

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 Group Treasury) if local laws and central 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 Group Treasury and Wärtsilä does not expect any defaults from the placements.

Aging of trade receivables

MEUR	2007		2006	
	Trade receivables, gross	Impairment on overdue	Trade receivables, gross	Impairment on overdue
Not past due	520		475	
Past due 1-30 days	148		101	
Past due 31-180 days	149	2	130	1
Past due 181-360 days	31	3	38	3
More than 1 year	44	13	45	13
Total	892	18	788	16

In 2007, EUR 11 million credit loss has been booked in the consolidated income statement.

Equity price risk

Wärtsilä has investments in publicly quoted shares (Note 15). The market value of these shares at the end of 2007 was EUR 134 million.

Wärtsilä also has equity investments totalling EUR 16 million in power plants companies, most of which are located in developing countries and performing well according to expectations.

Capital risk management

Wärtsilä's policy is to secure a strong capital base to keep the confidence of investors and creditors and for the future development of the business. The capital is defined as total equity including minority interest and net interest-bearing debt. The target for Wärtsilä is to have a solvency ratio of 35-40% and to pay a dividend equivalent to 50% of operational earnings per share.

MEUR	31 Dec. 07	31 Dec. 06
Balance sheet total	3 749	3 188
Advances received	-860	-572
	2 889	2 616
Total shareholders' equity	1 325	1 230
Solvency ratio %	45.9%	47.0%
In the capital management Wärtsilä also follows the gearing development:		
Interest-bearing liabilities, non-current	245	205
Interest-bearing liabilities, current	38	66
Cash and cash equivalents	-296	-179
	-13	91
Loan receivables	-14	-36
Net interest-bearing loan capital	-27	55
Gearing	-0.01	0.07