

## **WÄRTSILÄ'S FINANCIAL STATEMENTS BULLETIN 2007**

### **NET SALES GREW 18% IN 2007 AND PROFITABILITY IMPROVED TO 10.1% - IN 2008 PROFITABILITY WILL EXCEED 11%**

#### **FOURTH-QUARTER HIGHLIGHTS**

- Good market conditions continued
- Strong growth continued, order intake grew 21% to EUR 1,594 million (1,318)
- Net sales EUR 1,272 million (986), growth 29%
- Operating income (EBIT) grew 47% to EUR 146 million, or 11.5% percent of net sales (EUR 99 million and 10.1%).

#### **HIGHLIGHTS OF THE REPORTING PERIOD 1-12/2007**

- Market activity high in both Ship Power and Power Plants
- Strong ordering activity continued, order intake grew 22% to EUR 5,633 million (4,621). Power Plant orders grew 38%
- Order book total EUR 6,308 million (4,439), growth 42%
- Net sales grew 18% to EUR 3,763 million (3,190)
- Operating income (EBIT) grew 45% to EUR 379 million, or 10.1% percent of net sales (EUR 262 million and 8.2%).
- EPS increased to EUR 2.74 (3.72, comparable EPS 2.03)
- Strong cash flow from operating activities EUR 431 million (302)
  
- The Board of Directors proposes a dividend of EUR 2.25 per share

#### **HIGHLIGHTS 2008**

- Net sales will grow by about 25%
- Profitability will exceed 11%

#### **OLE JOHANSSON, PRESIDENT & CEO:**

“2007 was in many respects, yet another record year. Market activity continued high and we were once again able to show strong growth in order intake despite of a very high comparison base, new orders grew by 22 percent. Net sales grew by 18 percent and our profitability improved and reached a to date all time high of 10.1 percent. We expect market activity to continue solid during the first half of 2008. In Ship Power some slowdown might be seen at the end of the spring but we expect activity in the Power Plant market to continue to be very strong. Based on the strong order book and capacity investments we will continue our positive development and 2008 will be a year of strong growth and further improved profitability”.

#### **WÄRTSILÄ'S PROSPECTS IN 2008**

Based on the strong order book, Wärtsilä's net sales are expected to grow by about 25% in 2008. Profitability will exceed 11%. Wärtsilä's profitability varies considerably from one quarter to another. This pattern will repeat itself during the current year. The first quarter is likely to be the weakest and the last quarter the best.

ENCLS: Board of Directors' proposal to the Annual General Meeting

#### **ANALYST AND PRESS CONFERENCE**

An analyst and press conference will be held on Tuesday 5 February 2008 starting at 10.45 a.m. Finnish time (8.45 a.m. UK time) at the Wärtsilä headquarters in Helsinki, Finland. The conference

can be viewed on the Internet at the following address:

<http://194.100.179.98:80/wip/directlink.do?newbrowser=1&pid=2054416>

To participate in the teleconference, please call: +358(0)9 8248 3101 and enter the PIN-code 4217.

If you want to ask questions during the teleconference, press ##and you will hear the voice of the conference operator. The operator will then ask you to repeat the PIN-code for the conference. After this the operator will open the line for you so you can ask questions.

An on-demand version of the conference will be available on the company website

[www.wartsila.com](http://www.wartsila.com) later the same day.

## WÄRTSILÄ'S FINANCIAL STATEMENTS BULLETIN 2007

The numbers stated in this bulletin are audited.

### Fourth quarter 10-12/2007 in brief

EUR million	10-12/2007	10-12/2006	Change
Order intake	1 594	1 318	21%
Net sales	1 272	986	29%
Operating result	146	99	47%
% of net sales	11.5%	10.1%	
Profit before taxes	145	92 1)	58%
Earnings per share, EUR	1.05	0.61 1)	

1) For comparability reasons the 10-12/2006 figure does not include Wärtsilä's share of Ovako's profit after taxes, EUR 49 million.

### Review period 1-12/2007 in brief

MEUR	1-12/2007	1-12/2006	Change
Order intake	5 633	4 621	22%
Order book 31 December	6 308	4 439	42%
Net sales	3 763	3 190	18%
Operating result	379	262	45%
% of net sales	10.1%	8.2%	
Profit before taxes	372	255 2)	46%
Earnings per share, EUR	2.74	2.03 2)	
Cash flow from operating activities	431	302	43%
Interest-bearing net debt at the end of the period	-27	55	
Gross capital expenditure	231	193	20%

2) For comparability reasons the 2006 figure does not include Wärtsilä's share of Ovako's profit after taxes, EUR 67 million and the capital gain of EUR 124 million from the sale of Assa Abloy B shares.

## Operating environment and markets

### Ship Power markets continued active in 2007

Demand accelerated during the spring and once again ordering levels hit an all time high both in terms of vessels ordered and tonnage. As regards the number of vessels the contracting level was appr. 20% above the previous years' level, while tonnage was 40% higher than in 2006. Although the total annual volume was clearly above 2006, vessel orders were lower in December than in earlier months of the year. This appears to be due to a somewhat more nervous atmosphere in the market and slightly softened freight rates.

During the year demand was very strong especially in the merchant vessel segment. This was fuelled by the very high ordering of the bulk carriers driven by high earnings of owners. Demand for container vessels was brisk, and was even surprisingly strong in the bigger end of the vessel range. As expected, tanker orders declined after the record year in 2006. During the review period the LNG vessel market was not active and new investments were postponed due to delays of related production and terminal facility investments.

For the offshore segment the year was good with high utilization and day rates. The very high oil price has made investments into the offshore segment very attractive. Exploitation of deeper water reserves requires new kinds of equipment which has also increased demand in this segment. During the review period many new semi-submersible rigs, drill ships and pipe layers were ordered. After very strong demand in 2006 a slowdown could be seen in the market for anchor handlers and supply vessels, mainly due to long lead times and a fear of over capacity. Demand in the more stable cruise and ferry market remained at the same levels as 2006. In the special vessel segment, demand was lower only for tugs, especially in Asian shipyards. This was mainly due to allocation of building slots to other vessel types. In European yards, the volumes remained at last year's levels.

China continued its growth in shipbuilding, and with 41% of new vessels ordered in 2007, became the leading shipbuilding nation. Korea, the second biggest shipbuilding nation had 30% of new vessel orders and Japan and Europe 10% each. Other countries accounted for 9%. Compared to the corresponding period in 2006 both China and Korea gained market share whereas the market shares of Japan and Europe have decreased.

### **Market shares in Ship Power**

The total market volume for medium-speed main engines at the end of fourth quarter was 8,800 MW (8,700 at the end of the previous quarter) and Wärtsilä's market share was 38% (42 at the end of the previous quarter). Wärtsilä's market share has somewhat suffered from capacity constraints and longer lead times. Another reason behind the decrease in market share was the inactivity in the LNG segment where Wärtsilä's 50 DF engine has had a very strong position. Wärtsilä's market share for low-speed main engines remained unchanged at 16% (16), whereas the total market volume grew strongly to 38,100 MW (34,100 at the end of the previous quarter). The market for auxiliary engines totalled 9,000 MW (8,200) and Wärtsilä's market share was 6% (5).

In propulsor equipment Wärtsilä managed to regain its position in fixed pitched propellers (FPP) with the help of the investment it made in the Chinese joint venture company. In 2007 Wärtsilä's market share for FPP's increased to 15% from 11% in the corresponding period 2006. In controllable pitched propellers (CPP), Wärtsilä has suffered from capacity constraints and its market share has, therefore, declined to 18% (36).

### **Demand in the Power Plant markets remained high**

Demand in the Power plant market remained high and all segments relevant to Wärtsilä - baseload production, industrial self generation and grid stability and peaking as well as power solutions for the oil and gas industry - were active during the review period. Markets continued to be globally active. Demand for oil-fired power plants was strong during the review period, especially in Africa and the Middle East. The order intake for power plants running on renewable fuels, which includes among others liquid bio-fuel power plants, continued actively especially in Italy. Demand for gas-fired power plants, remained at a good level.

### **Wärtsilä's market shares in Power Plants**

According to the statistics compiled by Diesel and Gas Turbine magazine, Wärtsilä's market share of heavy fuel oil plants between June 2006 and May 2007 was 38% (34%). In the market for light fuel oil to Wärtsilä, Wärtsilä's market share increased to 24% (23%), mainly as a result of high demand for Wärtsilä's power plants fuelled by liquid bio-fuels. The market for gas power plants, including both reciprocating engines and gas turbines was roughly 10,900 MW (10,400), Wärtsilä's share in this segment was 12 % (8%). The total global market for oil and gas power plants in Wärtsilä's power range was 14,060 MW (14,750).

### **Strong ordering continued**

In the fourth quarter Wärtsilä's order intake continued to be strong and amounted to EUR 1,594 million (1,318), representing 21% growth. The order intake for Ship Power was at the same very high level as in the corresponding period 2006, EUR 640 million (619). The Ship Power order intake for the quarter consisted mainly of orders from the offshore and merchant segments. Ship Power received many large scope orders from Norwegian yards for offshore anchor handling and supply vessels. Different kinds of tankers and general cargo vessels were the main contributors in merchant orders.

The order intake for the Power Plants business was very strong for the fourth quarter, and 49% higher than during the corresponding period 2006, totalling EUR 463 million (311). During the quarter the largest oil-fired power plant orders were received from Cameroon, Peru and El Salvador. The largest gas power plant orders were received from Trinidad and Tobago, Indonesia and Argentina. During the last quarter of 2007 Wärtsilä was awarded a contract to supply the first biomass power plant to the Czech Republic.

During the review period January - December 2007 the order intake totalled EUR 5,633 million (4,621), representing growth of 22%. Most new orders, EUR 2,600 million (2,270), were registered in Ship Power and represented a growth of 15% on the corresponding period 2006.

In Ship Power the order intake was clearly dominated by the offshore segment at the beginning of the year. Wärtsilä booked many orders for semi-submersible rigs, drill ships, floating production units as well as for various supply vessels. One of the big landmarks during 2007 was the contract to supply an entire power, automation and propulsion system for a well-testing FPSO vessel for Brazilian Dynamic Producer Inc. In the offshore supply vessel market the greatest demand came from the Norwegian, Singaporean and Chinese shipyards. The offshore segment represented 36% of total Ship Power order intake in 2007. During the latter part of 2007 various kinds of merchant vessels were the more dominant, and ordering activity for smaller offshore supply vessels showed a slight slowdown from the previous very strong boom. The merchant vessel segment represented 43% of the total order intake for Ship Power. The merchant vessel segment includes both larger vessels that use low-speed main engines and smaller vessels with medium-speed main engines. Vessels using medium-speed main engines are of stronger relevance to Wärtsilä from an earnings point of view due to the licensee business model of the low-speed engine manufacturing and Wärtsilä's better market position in medium-speed applications. During the review period Wärtsilä received orders for bulk carriers, various cargo vessels and tankers. The ship yards in the merchant vessel segment are mainly situated in Korea and China. The special vessels segment represented 10%, cruise&ferry 7% and navy 5% of Ship Power's total order intake for the review period.

During the review period January – December 2007 growth in Power Plant orders was very strong at 38% and totalled EUR 1,421 million (1,027). The increase in order intake was mainly based on flexible baseload power plants orders from Africa, the Americas and Europe. The largest single orders came from Pakistan, Morocco, Trinidad and Tobago, Senegal and El Salvador. Flexible baseload power plants accounted for 67% of Power Plants total order intake. In the industrial self-generation segment the Italian liquid bio-fuel market continued to be active during 2007 and Wärtsilä received orders totalling more than 400 MW in total. The industrial self-generation customer segment accounted for 20% of total Power Plant orders in 2007. Important oil and gas industry orders were received from Russia, Hungary, the Ukraine, Ecuador and Peru. This customer segment accounted for 11% of total order intake.

At the end of the review period Wärtsilä's order book stood at EUR 6,308 million (4,439), a growth of 42%. The Ship Power order book stood at EUR 4,292 million (3,020), representing growth of 42%. The Power Plants order book was 52% higher than in the previous year and totalled EUR

1,608 million (1,061). The order book combined with active projects gives Wärtsilä a good baseload for 2009.

#### Order intake by business

MEUR	10-12/2007	10-12/2006	Change
Ship Power	640	619	3%
Services	489	388	26%
Power Plants	463	311	49%
Order intake, total	1 594	1 318	21%

MEUR	1-12/2007	1-12/2006	Change
Ship Power	2 600	2 270	15%
Services	1 607	1 322	22%
Power Plants	1 421	1 027	38%
Order intake, total	5 633	4 621	22%

#### Order intake Power Plants

MW	10-12/2007	10-12/2006	Change
Oil, MW	419	54	681%
Gas, MW	245	524	-53%
Renewable fuels, MW	79	124	-36%

MW	1-12/2007	1-12/2006	Change
Oil, MW	1 358	766	77%
Gas, MW	1 005	1 232	-18%
Renewable fuels, MW	483	353	37%

Orderbook by business	31.12.2007	31.12.2006	Change
Ship Power	4 292	3 020	42 %
Services	405	357	14 %
Power Plants	1 608	1 061	52 %
Orderbook, total	6 308	4 439	42 %

#### Net sales grew strongly

During the fourth quarter Wärtsilä's net sales increased to EUR 1,272 million (986), representing growth of 29%. Ship Power net sales grew by 11% to EUR 448 million (404) and Services by 23% to EUR 431 million (350). 21% of the Services net sales in the fourth quarter was organic. During the quarter the biggest growth in net sales was in the Power Plants business where net sales totalled EUR 391 million (228), and grew by 72% compared to the corresponding period 2006.

Wärtsilä's net sales for the review period January – December totalled EUR 3,763 million (3,190), a growth of 18%. Ship Power net sales grew strongly by 34% and amounted to EUR 1,320 million (985). Services net sales grew by 22% to EUR 1,550 million (1,266), with 19% of the full-year Services net sales being organic. Power Plant net sales fell by 6% to EUR 882 million (934). Growth in Power Plants during the review period was limited by capacity and slot allocation between Ship Power and Power Plants. Services net sales accounted for 41% of total net sales, Ship Power for 35% and power Plants for 24%.

#### Net sales by business

MEUR	10-12/2007	10-12/2006	Change
Ship Power	448	404	11%

Services	431	350	23%
Power Plants	391	228	72%
Net sales, total	1 272	986	29%

MEUR	1-12/2007	1-12/2006	Change
Ship Power	1 320	985	34%
Services	1 550	1 266	22%
Power Plants	882	934	-6%
Net sales, total	3 763	3 190	18%

### **Operating profit improved, strong profitability**

In the fourth quarter the operating result rose to EUR 146 million (99) the profitability increased to 11.5% (10.1). In the review period 1-12/2007 the operating result improved to EUR 379 million (262), representing profitability of 10.1% (8.2).

In the review period 1-12/2007 the financial items amounted to EUR -8 million (-7). Net interest totalled EUR -11 million (-13). Profit before taxes was EUR 372 million (447, out of which EUR 191 million refers to Wärtsilä's share of Ovako profit after taxes and sales of Assa Abloy B shares).

Taxes in the reporting period amounted to EUR 106 million (94). Taxes in the comparison period included deferred tax assets totalling EUR +26 million relating to previously recognized restructuring expenses.

Net income was EUR 265 million (353).

Earnings per share for the review period were EUR 2.74 (3.72, comparable EPS 2.03). Return on Investment (ROI) was 26.0% (31.8). Return on Equity (ROE) was 20.8% (29.5)

### **Financial position strong**

Cash flow from operating activities was 431 million (302). The financial position was strong. In addition to strong cash flow from operating activities, advanced payments increased during the review period and were EUR 860 million (572). Liquid reserves at the end of the period amounted to EUR 296 million (179). Net interest-bearing loan capital totalled EUR -27 million (55). The solvency ratio was 45.9% (47.0) and gearing was -0.01 (0.07).

### **Capital Expenditure**

Gross capital expenditure in the review period totalled EUR 231 million (193), which comprised EUR 65 million (86) in acquisitions and investments in securities and EUR 166 million (107) in production and information technology investments. Depreciation amounted to EUR 78 million (72).

During the review period, investments in the factories in Vaasa, Finland and Trieste, Italy amounted to EUR 33 million and the investment in the enlargement of propulsion equipment manufacturing in the Netherlands and China amounted to EUR 17 million. In addition, Wärtsilä had commitments related to the investment programmes amounting to EUR 9 million, while 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 review period. Due to the strong volume growth, the total capital expenditure for 2008 is expected to be EUR 200 million excluding acquisitions.

### **Holdings**

Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% of the total. This holding has been booked in the balance sheet at its market value at the end of the reporting period, EUR 100 million.

### **Personnel**

Wärtsilä Group had, on average, 15,337 (13,264) employees on average during the year 2007 and 16,336 (14,346) at year end. The total personnel increase was 1,990 people. The increase came mainly through new recruitments with 107 employees coming via acquired companies. 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 385 persons in 2007.

### **Strategy and objectives**

Wärtsilä's strategic aim is to strengthen its leading position in its markets and to ensure continued growth by offering its customers the best lifecycle efficiency and reliability available. This is made possible by an integrated equipment and service portfolio that matches customers' needs globally. Wärtsilä will also grow by adding new products and services to its offering and by broadening its global geographical presence. 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 acquisitions and joint ventures in 2007**

To support the growth targets, Wärtsilä has taken several strategic steps aimed at broadening the Services and Ship Power product offering, and increasing geographical presence in key areas.

In January Wärtsilä and Hyundai Heavy Industries Co. Ltd (HHI) signed an agreement to set up a 50/50-owned joint venture in Korea to manufacture dual-fuel engines for LNG (liquefied natural gas) carriers.

In February Wärtsilä acquired the Swedish company Senitec AB. The company specializes in environmental technology products for separating waste, such as oily water and sludge, in power plants, harbours and ships.

In February Wärtsilä acquired the entire business of Marine Propeller (Pty) Ltd in Cape Town, South Africa. Marine Propeller (Pty) Ltd focuses mainly on repairing propellers.

In May Wärtsilä continued extending its service offering in Propulsion services with the acquisition of UK-based propeller repair company McCall Propellers Ltd.

In July Wärtsilä acquired the marine business of Railko Ltd. in the UK, a company specializing in stern tube bearing technology.

In August the Scottish company, Electrical Power Engineering (Scotland) Ltd was acquired. The company specializes in electrical power engineering solutions for the marine, offshore, industrial and utilities segments.

The total price of these acquisitions was EUR 43 million, out of which EUR 25 million is reported as goodwill.

### **Other strategic issues**

In January Wärtsilä announced a public offer to the minority shareholders of Wärtsilä India Ltd to acquire 1,240,599 shares, or 10.3% of the share capital. The delisting offer was successful and 8.5% of the total shares were acquired. The shares of Wärtsilä India Ltd were de-listed from the Bombay Stock Exchange on 18 June 2007.

To improve marine customer service in the rapidly growing Chinese markets, Wärtsilä opened a large reconditioning workshop in Shanghai in March. In May, a service workshop and an office were opened in Vietnam to serve the growing Vietnamese shipping, shipbuilding and power industries.

The demand for training services is steadily growing and Wärtsilä opened a new training centre in South Korea, the world's largest shipbuilding country, to provide training for customers' engineers.

In May Wärtsilä and Vietnam Shipbuilding Industry Corporation (Vinashin) signed a licence agreement for the manufacture and sale of Wärtsilä low-speed marine engines in Vietnam.

In October Wärtsilä and Bryansk Engineering Works (BMZ), signed a licence agreement for the manufacture of Wärtsilä low-speed marine diesel engines in Russia.

In November Wärtsilä and V.Ships, a company specialising in ship management, agreed to cooperate on the provision of a broad spectrum of marine technical services in the marine market.

Wärtsilä Ship Power was reorganised into five Ship Power customer segments: Merchant, Offshore, Cruise&Ferry, Navy and Special vessels. The aim is to better respond to market requirements and technology development, as well as to be prepared for market fluctuations.

### **Financial targets**

The Group's average net sales growth target is 6-7% over the cycle. The growth target for the Ship Power and Power Plants businesses is 4% and for the Services business 10-15%. The Group's operating profit target (EBIT%) is 8-10% of net sales over the cycle with a range of +/- 2%. The solvency target is 35-40%.

### **Sustainable development**

The Sustainability Report, which is part of the annual report, is prepared in accordance with the GRI Guidelines. It represents a balanced and reasonable view of our organization's economic, environmental and social performance. The sustainability report is assured.

### **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 2001 option scheme ended March 31 2007.

Under the terms and conditions of Wärtsilä's 2001 and 2002 option schemes, the share subscription price of the 2001 options was 14.60 euros and the share subscription price of 2002 options is 7.40 euros.

During the subscription period 3,418,944 shares were subscribed based on the 2001 and 2002 option schemes, which corresponds to 3.7% of the total number of shares. A total of 31,056 shares have not been subscribed.

### **Annual General Meeting**

Wärtsilä's Annual General Meeting on 14 March 2007 approved the financial statements and discharged the company's President & CEO and the members of the Board of Directors from liability for the financial year 2006. The Meeting approved the Board of Directors' proposal to pay a dividend of 1.75 euros per share.

Wärtsilä's Annual General Meeting decided that the Board of Directors shall have six members. The following were elected to the Board: Ms Maarit Aarni-Sirviö, Mr Heikki Allonen, Mr Göran J. Ehrnrooth, Mr Antti Lagerroos, Mr Bertel Langenskiöld and Mr Matti Vuoria. The firm of authorized public accountants KPMG Oy Ab were appointed as the company's auditors.

### **Authorizations granted to the Board of Directors**

The AGM authorized the Board to issue new Series A and/or Series B shares in one or several instalments. The share issue can be executed on the conditions and at the price determined by the Board.

Under this authorization at most a total of 9,555,434 new shares may be issued. Within this total amount of shares

- at most 2,357,958 new A shares and at most 7,197,476 new B shares are issued to the shareholders in proportion to their existing holdings, and/or
- at most 9,555,434 B shares are issued, disapplying the pre-emptive right of the shareholders provided that the Company has important financial grounds for doing so.

The authorization may be exercised, within the restrictions listed above, to develop the company's capital structure, to broaden its ownership base, as consideration in acquisitions or when the company acquires assets related to its business. The rights issue may also be executed as payment in kind or by using the right of set-off.

The authorization remains in force until the following Annual General Meeting. The authorization was not exercised during the review period.

### **Board of Directors**

The Board of Directors of Wärtsilä Corporation 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 Maarit Aarni-Sirviö, Heikki Allonen and Matti Vuoria.

#### **Nomination Committee:**

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

#### **Compensation Committee:**

Chairman Antti Lagerroos; Members Heikki Allonen and Matti Vuoria.

### **Share capital and shares**

A total of 415,209 Wärtsilä B shares were subscribed during the period under the 2001 and 2002 option schemes. This increased the share capital by EUR 1,453,231.50 following which, the share capital amounts to EUR 335,893,463.50.

### **SHARES ON HELSINKI EXCHANGES**

31 December 2007	A-share	B-share	Total
Number of shares	23,579,587	72,389,974	95,969,561
Number of votes	235,795,870	72,389,974	308,185,844
Number of shares traded, 1-12/2007	13,412,121	125,257,269	138,669,390

1 Jan.- 31 December 2007	High	Low	Average 1)	Close
A-share	58.00	38.05	52.73	53.09
B-share	58.89	38.44	52.06	52.09

1) Trade-weighted average price.

Market capitalization EUR million	31 Dec. 2007 5,023	31 Dec. 2006 3,898
Foreign shareholders	31 Dec. 2007 50.0%	31 Dec. 2006 29.3%

### Changes in ownership

During 2007 Wärtsilä was notified of the following changes in ownership in accordance with the Finnish Securities Act chapter 2 Paragraph 9:

On 3 July 2007 Varma Mutual Pension Insurance Company increased its holding in Wärtsilä Corporation. Following the transaction Varma owned 2,795,615 A shares and 1,188,691 B shares giving a total holding of 3,984,306 Wärtsilä shares or 4.16% of Wärtsilä's share capital and 9.46% of the total votes.

On 3 July 2007 Sampo plc decreased its holding in Wärtsilä Corporation. Following the transaction Sampo owns 584,668 A shares or 0.61% of Wärtsilä's share capital and 1.90% of the total votes.

On 22 August 2007 Svenska Litteratursällskapet i Finland r.f. increased its holding in Wärtsilä Corporation. Following the transaction it owns over 1/20 of the company's votes, 1,546,596 A shares and 17,000 B shares giving a total holding of 1,563,596 Wärtsilä shares or 1.63% of Wärtsilä's share capital and 5.03% of the total votes.

On 23 August 2007 Varma Mutual Pension Insurance Company increased its holding in Wärtsilä Corporation. Following the transaction it owns over one tenth (1/10) of the company's votes, 3,547,257 A shares and 1,188,691 B shares giving a total holding of 4,735,948 Wärtsilä shares or 4.94% of Wärtsilä's share capital and 11.91% of the total votes.

On 20 December 2007 Fiskars Corporation decreased its holding in Wärtsilä Corporation to less than 1/20 (5%) of the share capital and voting rights. Following the transaction it holds 752,047 A shares and 65,429 B shares giving a total holding of 817,476 shares or 0.85% of Wärtsilä's share capital and 2.46% of the total votes.

On 20 December 2007 Avlis AB, a wholly owned subsidiary of Fiskars Corporation, increased its holding in Wärtsilä Corporation to more than 3/20 (15%) of the share capital and more than ¼ (25%) of the voting rights. Following the transaction it holds 8,500,000 A shares and 6,500,000 B shares giving a total holding of 15,000,000 shares or 15.63% of Wärtsilä's share capital and 29.69% of the total votes.

### Manufacturing

During 2007 the investment programs to increase the production capacity of medium speed engines in Finland and Italy were finalized. The new production assets were ramped up to full utilization during the fourth quarter as planned. In terms of output a total of 5,416 MW (4,256) of four-stroke engines manufactured in Wärtsilä's own factories were delivered during 2007. In 2008 Wärtsilä estimates engine deliveries from its own factories to exceed 6,000 MW.

The establishment of joint ventures and capacity investments are proceeding according to plan. Construction work in the joint venture with Hyundai Heavy Industries in Korea to manufacture dual fuel engines for the LNG market has started and capacity will be available in the fourth quarter of 2008. To meet increasing demand in Asia, and in particular the growing shipbuilding market in China, Wärtsilä has established a joint-venture with CSIC and Mitsubishi Heavy Industries to manufacture low-speed engines in China. The project is proceeding according to plan and manufacturing is scheduled to start during the fourth quarter of 2008. The capacity additions from the joint venture engine factories will become operational mainly in 2009.

Investments to increase the propulsion production capacity in the Netherlands became operational during the last quarter of 2007. Investments to increase the propulsion production capacity in Norway and India for gearboxes and controllable pitch propellers are proceeding according to plan and will become operational during the second half of 2008. Wärtsilä's joint venture company, Wärtsilä CME Zhenjiang Propeller Co. Ltd., doubled its production capacity for fixed pitch propellers, making the company the biggest manufacturer of this type of propellers in China and one of the biggest in the world.

Production of compact thrusters and seals & bearings in the Wärtsilä's facilities in Wuxi in China started in the third quarter and full capacity utilization will be achieved during 2008.

The integration of engine and propulsion manufacturing and R&D into one global organisation called Wärtsilä Industrial Operations was finalized in 2007.

During the review period Wärtsilä continued to develop capacity for critical components and investments have been implemented by many of the company's supplier. The main part of the investments became operational in 2007.

## **R&D**

During 2007 several R&D milestones were achieved. Wärtsilä, together with other European players, has participated in a large SOFC (Solid Oxide Fuel Cell) project. A significant milestone in this project was the start up of the WFC20 fuel cell prototype in the Wärtsilä Fuel Cell test centre in October.

In 2007 Wärtsilä and MAN Diesel submitted a follow-up of the Hercules project, a new large-scale collaborative research project – Hercules-Beta to the European Commission. The principal aim of the proposed Hercules-Beta is to considerably improve the efficiency of marine diesel propulsion systems and achieve substantial reductions in fuel consumption and emissions. The first phase of the Hercules project ended in September.

Wärtsilä signed an agreement on research and development cooperation with the University of Vaasa and the University of Applied Sciences in Vaasa. This is an additional step in Wärtsilä's efforts to increase co-operation between Wärtsilä and universities globally.

During the review period the Wärtsilä Auxpac 26 engine was successfully tested. The Auxpac 26 engine enhances Wärtsilä's Auxpac product range to meet market demand for bigger auxiliary engines. Deliveries of Auxpac 26 will start in 2008.

Wärtsilä introduced the new 20-cylinder 46F engine, which offers more power and less emission while maintaining high energy efficiency, for power plant installations.

In 2007 Wärtsilä's research and development expenses totalled EUR 122 million (85).

### **Risks and business uncertainties**

The short supply of certain key components continues. Bottlenecks exist, for example, in castings and forgings where global demand exceeds supply. Various measures by Wärtsilä to ensure the availability of these key components have continued and a number of suppliers have invested in their production capacity, many of which are already operational.

### **Market outlook 2008**

The strongly growing fleet has for a longer period of time already, suggested a weakening flow of new vessel orders. Despite the expectations of normalised demand, activity in the shipping and shipbuilding markets continued to be very high until the end of the year. During the autumn the sentiment in the market has become more cautious and slightly softened freight rates have also had an impact. The US credit crisis has tightened the financial market and also impacted the attractiveness of new investments, although it should be noticed that ship owners have operated on very profitable markets for a long period of time and are therefore not directly dependent on the credit market for funding new investments. Even though ordering levels seem to have normalised during the last month of 2007 it is still too early to judge whether this is an indication of a start of a more stable period or if the market is temporarily catching its breath. For Wärtsilä Ship Power ordering activity remains on a good level and a stable order flow is expected to continue for at least the next quarter. During the latter part of the spring some slow down in ordering activity might be seen.

The main drivers for continued growth in the power plant market remain world economic growth as well as the need to increase efficiency and versatility in power generation due to high fuel prices. Other drivers for the power plant market demand are environmental concerns and fuel availability issues. Flexible baseload as well as industrial self-generation are forecasted to remain active market segments throughout the Middle East, Africa and the Americas. Power Plants sees continued growth potential in the grid stability services market in North Americas as well as other developed countries. It is foreseen that the liquid bio-fuel market will remain active in Central Europe. The growth economies Brazil, Russia, India and China offer interesting market potential for Wärtsilä. Wärtsilä's power plant solutions are ideally suited for today's markets which require high efficiency and operational flexibility as well as environmental sustainability. For Wärtsilä Power Plants continued high ordering activity is expected in all segments during at least the first half of 2008.

Due to the long order book Wärtsilä has time to react to potential fluctuations in the market. This is supported by the flexible manufacturing model and the solid growth in the Services business. The Services business will continue to constitute a considerable share of Wärtsilä's net sales.

### **Wärtsilä's prospects in 2008**

Based on the strong order book, Wärtsilä's net sales are expected to grow by about 25% in 2008. Profitability will exceed 11%. Wärtsilä's profitability varies considerably from one quarter to another. This pattern will repeat itself during the current year. The first quarter is likely to be the weakest and the last quarter the best.

### **WÄRTSILÄ FINANCIAL STATEMENT BULLETIN 2007**

This financial statement bulletin is prepared in accordance with IAS 34 (Interim Financial Reporting) using the earlier published accounting policies and methods of computation. All figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

#### **Use of estimates**

The preparation of the financial statements in accordance with IFRS requires management to make

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

Amended and new International Financial Reporting Standards (IFRS) as of 1 January 2007:

- IFRS 7, financial instruments: Disclosures
- Amendment to IAS 1, Capital disclosures
- IFRIC 8, Scope of IFRS 2
- IFRIC 9, Reassessment of Embedded Derivatives
- IFRIC 10, Interim financial Reporting and Impairment.

The adoption of the new and revised standards and interpretations does not have any material effect on the financial statements.

4 February 2008  
Wärtsilä Corporation  
Board of Directors

**Consolidated Income Statement**  
**MEUR**

	<b>2007</b>	<b>2006</b>
<b>Net sales</b>	3 763	3 190
Change in inventories of finished goods & work in progress	59	88
Work performed by the Group and capitalized	8	2
Other income	21	25
Material and services	-2 249	-1 955
Employee benefit expenses	-728	-629
Depreciation	-78	-72
Other expenses	-417	-387
<b>Operating result</b>	<b>379</b>	<b>262</b>
Income from financial assets	7	8
Interest income	8	4
Other financial income	12	23
Interest expenses	-18	-17
Other financial expenses	-16	-26
Net income from investments available for sale		124
Share of profit of associates	1	68
<b>Profit before taxes</b>	<b>372</b>	<b>447</b>
Income taxes	-106	-94
<b>Profit for the financial period</b>	<b>265</b>	<b>353</b>
Attributable to:		
Equity holders of the parent company	262	351
Minority interest	3	2
Total	265	353
Earnings per share attributable to equity holders of the parent company:		
Earnings per share, EUR	2.74	3.72
Diluted earnings per share, EUR	2.73	3.71

**Consolidated Balance Sheet, Assets**

<b>MEUR</b>	<b>31 Dec. 2007</b>	<b>31 Dec. 2006</b>
<b>Non-current assets</b>		
Intangible assets	202	185
Goodwill	445	417
Property, plant and equipment	365	300
Investment properties	13	15
Equity in associates	16	3
Investments available for sale	155	183
Interest-bearing investments	12	35
Deferred tax receivables	70	87
Other receivables	7	8
	1 283	1 233
<b>Current assets</b>		
Equity in associates*	1	6
Inventories	1 081	838
Interest-bearing receivables	2	1
Trade receivables	874	772
Income tax receivables	11	8
Other receivables	201	151
Cash and cash equivalents	296	179
	2 466	1 955
<b>Assets</b>	<b>3 749</b>	<b>3 188</b>

\*Shares in Oy Ovako Ab.

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

<b>MEUR</b>	<b>31 Dec. 2007</b>	<b>31 Dec. 2006</b>
<b>Shareholders' equity</b>		
Share capital	336	334
Share premium reserve	61	58
Translation differences	3	3
Fair value reserve	127	128
Retained earnings	788	693
Total equity attributable to equity holders of the parent	1 315	1 217
Minority interest	10	13
<b>Total shareholders' equity</b>	<b>1 325</b>	<b>1 230</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Interest-bearing debt	245	205
Deferred tax liabilities	81	74
Pension obligations	45	53
Provisions	25	20
Advances received <sup>1)</sup>	394	276
Other liabilities	3	1
	792	628
<b>Current liabilities</b>		
Interest-bearing debt	38	66
Provisions	139	117
Advances received <sup>1)</sup>	466	296
Trade payables	348	271

Income tax liabilities	35	78
Other liabilities	605	503
	1 632	1 330
<b>Total liabilities</b>	<b>2 424</b>	<b>1 958</b>
<b>Shareholders' equity and liabilities</b>	<b>3 749</b>	<b>3 188</b>

<sup>1)</sup> In 2006, the total amount of Advances received was presented in Current liabilities.

### Consolidated Cash Flow Statement

MEUR	2007	2006
<b>Cash flows from operating activities:</b>		
Profit before taxes	372	447
Adjustments:		
Depreciation	78	72
Financial income and expenses	8	6
Selling profit and loss of fixed assets and other changes	-7	-129
Share of profit of associates	-1	-68
Cash flow before changes in working capital	450	327
<b>Changes in working capital:</b>		
Current assets, non-interest-bearing, increase (-) / decrease (+)	-162	-125
Inventories, increase (-) / decrease (+)	-251	-189
Current liabilities, non-interest-bearing, increase (+) / decrease (-) <sup>1)</sup>	548	365
Changes in working capital	135	52
<b>Cash flow from operating activities before financial items and taxes</b>	<b>585</b>	<b>379</b>
<b>Financial items and taxes:</b>		
Interest and other financial expenses	-42	-24
Interest and other financial income	15	4
Income taxes	-127	-56
Financial items and taxes	-154	-77
<b>Cash flow from operating activities</b>	<b>431</b>	<b>302</b>
<b>Cash flow from investing activities:</b>		
Investments in shares and acquisitions	-65	-86
Investments in tangible and intangible assets	-166	-99
Proceeds from sale of shares	7	318
Proceeds from sale of tangible and intangible assets	2	5
Loan receivables, increase (-) / decrease (+) and other changes		2
Dividends received from investments	7	8
<b>Cash flow from investing activities</b>	<b>-214</b>	<b>148</b>
<b>Cash flow after investing activities</b>	<b>217</b>	<b>450</b>
<b>Cash flow from financing activities:</b>		
Issuance of share capital	4	19
New long-term loans	65	6
Amortization and other changes in long-term loans	-33	-37
Dividends paid	-168	-283
Loan receivables, increase (-) / decrease (+)	5	-7
Current loans, increase (+) / decrease (-)	31	-85
<b>Cash flow from financing activities</b>	<b>-95</b>	<b>-387</b>

<b>Change in liquid funds, increase (+) / decrease (-)</b>	122	63
Cash and cash equivalents at beginning of period	179	120
Fair value adjustments, investments	1	1
Exchange rate changes	-6	-4
Cash and cash equivalents at end of period	296	179

<sup>1)</sup> Including advances received current and non-current.

#### Statement of Changes in Shareholders' Equity

	Total equity attributable to equity holders of the parent					Minority interest	Total equity
MEUR	Share capital	Share issue premium	Translation differences	Fair value and other reserves	Retained earnings		
<b>Shareholders' equity on 1 January 2006</b>	329	44	7	147	626	10	1 163
Translation differences			-4		-1	-1	-5
Other changes						3	3
Available-for-sale investments gain / loss arising from fair valuation, net of taxes transferred to income statement, net of taxes				25			25
				-81			-81
Cash flow hedges gain / loss arising from fair valuation, net of taxes transferred to income statement, net of taxes				34			34
				3			3
<b>Net income recognized directly in equity</b>			-4	-19	-1	2	-22
Profit for the financial period					351	2	353
<b>Total recognized income and expenses for the period</b>			-4	-19	351	3	331
Options exercised	5	14					19
Dividends paid					-283		-283
<b>Shareholders' equity on 31 December 2006</b>	334	58	3	128	693	13	1 230
Other changes						-6	-5
Available-for-sale investments gain / loss arising from fair valuation, net of taxes				-18			-18
Cash flow hedges gain / loss arising from fair valuation, net of taxes				17			17
<b>Net income recognized directly in equity</b>				-1		-6	-7
Profit for the financial period					262	3	265
<b>Total recognized income and expenses for the period</b>				-1	262	-2	259
Options exercised	1	3					4
Dividends paid					-167	-1	-168
<b>Shareholders' equity on 31 December 2007</b>	336	61	3	127	788	10	1 325

#### BUSINESS SEGMENTS

<b>Income statement 2007</b>	<b>Power</b>	<b>Holdings</b>	<b>Unallocated</b>	<b>Group</b>
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<b>MEUR</b>	<b>Businesses</b>			
Net sales	3 763			3 763
Operating result	379			379
Financial income and expenses, dividends		6	-14	-8
Net income from assets available for sale				
Share of profit of associates	1			1
Profit before taxes				372
Assets	3 549	119	81	3 749
Liabilities	2 308		116	2 424
Investments	231			231
Depreciation and impairment	-78			-78

<b>Income statement 2006</b>	<b>Power</b>	<b>Holdings</b>	<b>Unallocated</b>	<b>Group</b>
<b>MEUR</b>	<b>Businesses</b>			
Net sales	3 190			3 190
Operating result	262			262
Financial income and expenses, dividends	-15	8		-7
Net income from assets available for sale		124		124
Share of profit of associates	1	67		68
Profit before taxes				447
Assets	2 891	202	94	3 188
Liabilities	1 806		152	1 958
Investments	193			193
Depreciation and impairment	-72			-72

<b>Geographical segments</b>	<b>Europe</b>	<b>Asia</b>	<b>Americas</b>	<b>Other</b>	<b>Group</b>
<b>MEUR</b>					
Net sales 2007	1 442	1 432	520	369	3 763
Net sales 2006	1 245	1 141	582	222	3 190

#### **INTANGIBLE ASSETS AND PROPERTY, PLANT & EQUIPMENT**

<b>MEUR</b>	<b>2007</b>	<b>2006</b>
<b>Intangible assets</b>		
Book value at 1 January	602	541
Changes in exchange rates	-6	-4
Acquisitions	47	69
Additions	33	22
Depreciation and impairment	-30	-28
Disposals and intra-balance sheet transfer		2
<b>Book value at end of period</b>	<b>646</b>	<b>602</b>
<b>Property, plant and equipment</b>		
Book value at 1 January	315	273
Changes in exchange rates	3	-6
Acquisitions	1	18
Additions	133	84
Companies sold	-17	
Depreciation and impairment	-48	-44
Disposals and intra-balance sheet transfer	-9	-11
<b>Book value at end of period</b>	<b>377</b>	<b>315</b>

#### **GROSS CAPITAL EXPENDITURE**

<b>MEUR</b>	<b>2007</b>	<b>2006</b>
Investments in securities and acquisitions	65	86

Other investments	166	107
<b>Group</b>	<b>231</b>	<b>193</b>

During the review period 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 review period. 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 review period. In addition, Wärtsilä's commitments of the investment programme in the Korean joint venture Wärtsilä Hyundai Engine Company Ltd. amounted to EUR 12 million at the end of the review period.

## IMPACT OF ACQUISITIONS ON THE CONSOLIDATED BALANCE SHEET

During the reporting period Wärtsilä has acquired the propeller repair business of the South African company Marine Propeller (Pty) Ltd., a Swedish environmental technology company Senitec AB, a propeller repair company McCall Propellers Ltd. in U.K., marine business of the UK-based Railko Ltd., a company specializing in synthetic stern tube bearing technology and a Scottish company Electrical Power Engineering (Scotland) Ltd. specializing in electrical power engineering solutions for marine, offshore, industrial and utilities segments. In addition, Wärtsilä acquired 8.5% of Wärtsilä India Ltd. and at the end of the review period the percentage of ownership was 98.2%. If all companies had been acquired on 1 January 2007 Wärtsilä's (pro forma) net sales would have been EUR 3,798 million and (pro forma) operating income EUR 382 million.

<b>MEUR</b>	<b>2007</b>
Acquisition costs	54
Acquired assets to fair value	21
Goodwill	33
Specification of acquired assets:	
Intangible assets	14
Property, plant and equipment	1
Inventories	3
Receivables	9
Cash and cash equivalents	2
Minority interest	3
Liabilities	-6
Deferred tax liabilities	-3
<b>Total</b>	<b>21</b>

## INTEREST-BEARING LOAN CAPITAL

<b>MEUR</b>	<b>31 Dec. 2007</b>	<b>31 Dec. 2006</b>
Long-term liabilities	245	205
Current liabilities	38	66
Loan receivables	-14	-36
Cash and bank balances	-296	-179
<b>Net</b>	<b>-27</b>	<b>55</b>

## FINANCIAL RATIOS

	<b>2007</b>	<b>2006</b>
Earnings per share, EUR	2.74	3.72
Diluted earnings per share, EUR	2.73	3.71
Equity per share, EUR	13.70	12.74
Solvency ratio, %	45.9	47.0
Gearing	-0.01	0.07

## PERSONNEL

<b>2007</b>	<b>2006</b>
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On average	15 337	13 264
At end of period	16 336	14 346

## CONTINGENT LIABILITIES

MEUR	31 Dec. 2007	31 Dec. 2006
Mortgages	13	20
Chattel mortgages	8	21
<b>Total</b>	<b>22</b>	<b>42</b>
Guarantees and contingent liabilities on behalf of Group companies	479	317
Nominal amount of rents according to leasing contracts	69	50
<b>Total</b>	<b>548</b>	<b>367</b>

## NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

MEUR	Total amount	of which closed
Interest rate swaps	140	
Foreign exchange forward contracts	1 284	214
Currency options, purchased	34	

## CONDENSED INCOME STATEMENT, QUARTERLY

MEUR	10-12/ 2007	7-9/ 2007	4-6/ 2007	1-3/ 2007	10-12/ 2006	7-9/ 2006	4-6/ 2006	1-3/ 2006
Net sales	1 272	933	797	761	986	767	845	592
Other income	10	3	4	4	11	4	8	2
Expenses	-1 114	-821	-710	-683	-880	-696	-764	-541
Depreciation and impairment	-22	-19	-18	-18	-18	-18	-18	-18
Operating result	146	96	73	63	99	56	70	36
Financial income and expenses	-1	-2	-1	-4	-8	1	2	-3
Net income from assets available for sale							124	
Share of profit of associates	1				50	4	8	7
Profit before taxes	145	95	72	60	141	61	204	40
Taxes for the period	-43	-26	-20	-17	-33	-20	-53	12
Profit for the financial period	103	68	52	42	108	42	151	52
Attributable to:								
Equity holders of the parent company	101	68	52	42	107	41	150	52
Minority interest	2	1	1		1			
Total	103	68	52	42	108	42	151	52
Earnings per share attributable to equity holders of the parent company:								
Earnings per share, EUR	1,05	0,71	0,54	0,44	1,13	0,44	1,60	0,55
Diluted earnings per share, EUR	1,05	0,70	0,54	0,44	1,15	0,43	1,58	0,55

## CALCULATION OF FINANCIAL RATIOS

### Earnings per share (EPS)

profit before taxes - income taxes - minority interests

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Adjusted number of shares over the financial year

### Equity per share

Shareholders' equity

-----  
Adjusted number of shares at the end of the period

### Solvency ratio

Shareholders' equity + minority interests x 100

-----  
Balance sheet total - advances received

**Gearing**

Interest-bearing liabilities - cash and bank balances

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Shareholders' equity + minority interests

PROPOSAL OF THE BOARD

The parent company's distributable funds total 577,382,733.65 euros, which includes 159,240,111.16 euros in net profit for the year. There are 95,969,561 shares with dividend rights.

The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

- a dividend of EUR 2.25 per share be paid, making a total of	EUR 215,931,512.25
- that the following sum be retained in shareholders' equity	<u>EUR 361,451,221.40</u>
Totalling	EUR 577,382,733.65

No significant changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good and in the opinion of the Board of Directors the proposed dividend will not put the company's solvency at risk.