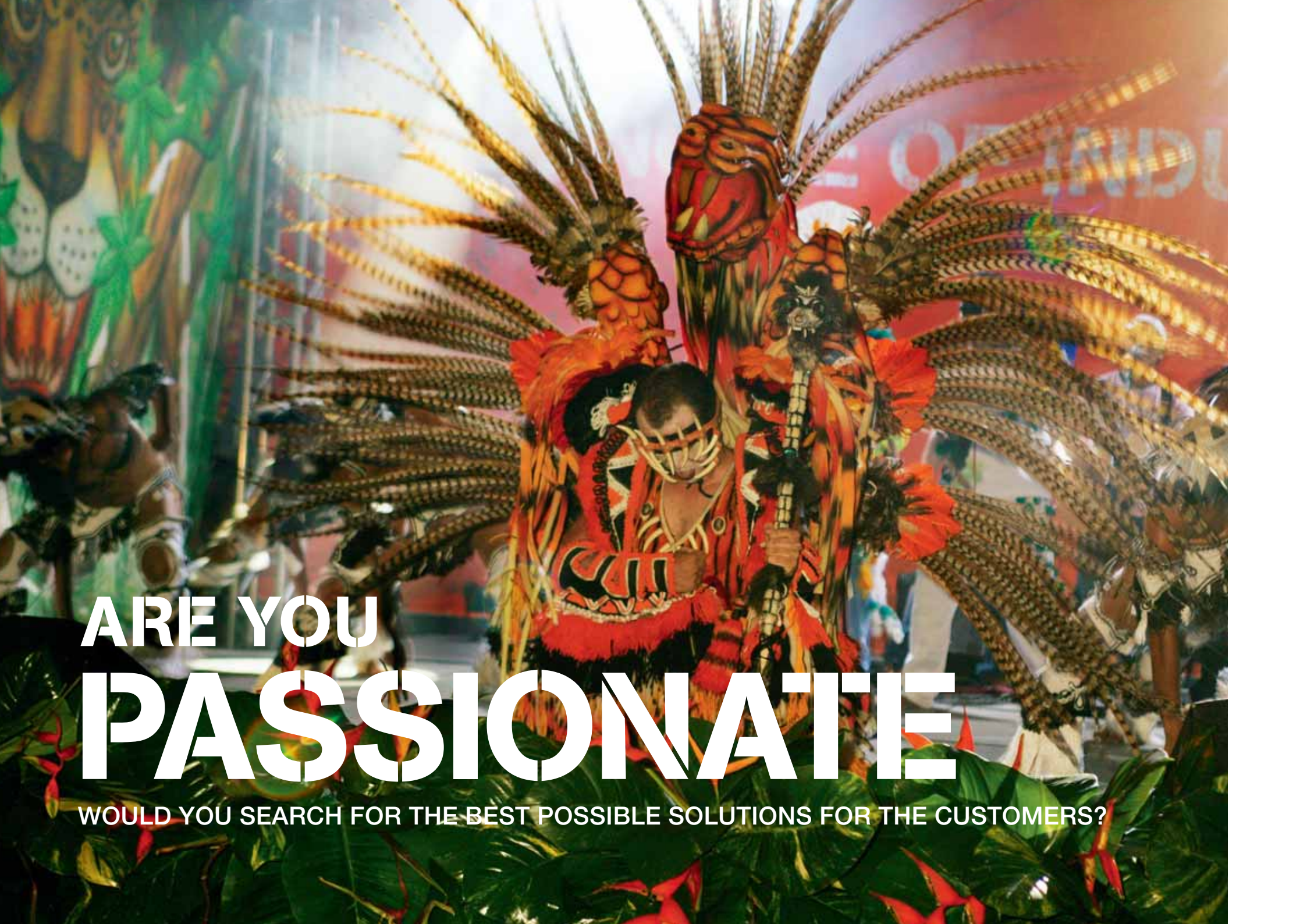


A nighttime photograph of a city skyline reflected in a body of water. The buildings are illuminated with warm lights, and several boats are visible on the water, their lights creating light trails. The overall atmosphere is vibrant and urban.

PASSION CREATIVITY DOING

Wärtsilä Annual Report 2008



ARE YOU PASSIONATE

WOULD YOU SEARCH FOR THE BEST POSSIBLE SOLUTIONS FOR THE CUSTOMERS?

A wide-angle photograph of a desert landscape featuring rolling sand dunes. The dunes are a warm, reddish-brown color and are sparsely dotted with small, dark green shrubs. The sky is a pale, clear blue, suggesting a bright, sunny day. The overall scene is desolate and expansive.

ARE YOU CREATIVE

WOULD YOU PLACE A POWER PLANT HERE?



ARE YOU A
DOER?

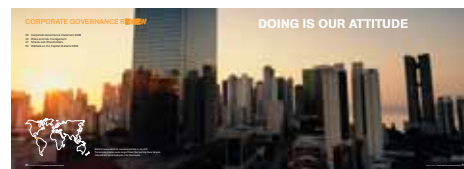
Being successful in today's demanding market conditions requires **passion, creativity and doing**. Passion to achieve our clients' goals. Creativity to discover innovative products and solutions. "Can do" attitude to make things happen. In Wärtsilä we are close to 19,000 passionate and creative doers who are dedicated to work for our success.

Content



■ Business review

06	This is Wärtsilä
08	Strategy
14	Letter to the shareholders
16	Market environment
19	Ship Power
22	Services
25	Power Plants
29	Wärtsilä Industrial Operations



■ Corporate Governance review

32	Corporate Governance statement 2008
42	Risks and risk management
47	Shares and shareholders
52	Wärtsilä on the capital markets 2008



■ Sustainability review

56	Wärtsilä and sustainability
62	Economic performance
66	Environmental performance
68	Products, R&D and the environment
74	Environmental performance indicators
78	Personnel and social performance
86	Report scope
86	Reporting profile
87	Independent assurance report
88	GRI content index

■ Financial review

92	Five Years in Figures	129	Parent Company Financial Statements
94	Calculation of Financial Ratios	129	Income Statement
95	Review by the Board of Directors 2008	129	Balance Sheet
104	Consolidated Financial Statements	131	Cash Flow Statement
104	Income Statement	132	Accounting Principles for the Parent Company
105	Balance Sheet	133	Notes to the Parent Company Financial Statements
106	Cash Flow Statement	137	Proposal of the Board
107	Statement of Changes in Shareholders' Equity	138	Auditors' Report
108	Accounting Principles for the Consolidated Accounts	139	Quarterly Figures 2007–2008
112	Notes to the Consolidated Financial Statements	139	Information for Shareholders

BUSINESS REVIEW

- 06 This is Wärtsilä
- 08 Strategy
- 14 Letter to the shareholders
- 16 Market environment
- 19 Ship Power
- 22 Services
- 25 Power Plants
- 29 Wärtsilä Industrial Operations



In 2008 Wärtsilä opened a new, expanded office and workshop in Baku, Azerbaijan. Wärtsilä currently employs about 60 people in Azerbaijan where it has been present for ten years.

POWER IS OUR PASSION

(AND PASSION IS OUR POWER)

Ship Power

Wärtsilä is the leading provider of ship power solutions including ship design, engines, generating sets, reduction gears, propulsion equipment, automation and power distribution systems as well as sealing solutions for the marine industry. Our customers are global or local leading companies within the merchant, offshore, cruise and ferry, navy and special vessel segments. We command a strong position in all main marine segments as a supplier of highly rated ship machinery and systems.

Services

Wärtsilä supports its customers throughout the life cycle of their installations by optimising efficiency and performance. We provide the broadest portfolio and best services in the industry for both ship power and power plants. We offer expertise, proximity and responsiveness for all customers regardless of their equipment make in the most environmentally sound way.

Power Plants

Wärtsilä is a leading supplier of flexible power plants for the decentralised power generation market. We offer solutions for baseload power generation, grid stability & peaking, industrial self-generation as well as for the oil and gas industry. We provide superior value to our customers with our distributed, flexible, efficient and environmentally advanced energy solutions, which enable a global transition to a more sustainable and modern energy infrastructure.

This is Wärtsilä

Wärtsilä enhances the business of its customers by providing them with complete life cycle power solutions. When creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products and solutions as well as services. Through innovative products and services, Wärtsilä sets out to be the most valued business partner of all its customers. This is achieved by the dedication of close to 19,000 professionals manning 160 locations in close to 70 countries around the world.

2008 in brief

2008 was in many respects a different year. During the first half of the year activity was very brisk on both the shipbuilding and power plant markets. In the autumn the financial crisis became evident and the uncertainty increased also in the shipbuilding markets. As a consequence of the global financial crisis the shipbuilding market came to a complete standstill in the last quarter of 2008 and only a handful of new orders were placed. Activity in the power plant markets remained good throughout the year although a slowdown in customer decision making processes could be seen during the second half of the year. The market conditions remained favourable for the Services business throughout the year.

- Order intake for the review period was at last year's level, EUR 5,573 million (5,633).
- The order book grew 9% and stood at EUR 6,883 million (6,308) at the end of the year. Order cancellations that materialised during the year amounted to EUR 333 million and have been deducted from the order book. Wärtsilä estimates an additional risk of cancellations amounting to EUR 800 million.
- Net sales grew 23% to EUR 4,612 million (3,763). The Services business share of total net sales was 40%, Ship Power 33% and Power Plants 27%.
- Profitability improved clearly and was 11.4% (10.1%). The operating profit grew by 38% to EUR 525 million (380).
- Earnings per share amounted to 3.88 (2.74).
- During the year Wärtsilä acquired the global ship design group Vik-Sandvik and Conan Wu & Associates Pte Ltd (CWA) in Singapore. By combining ship design capability with its existing offerings in propulsion systems and automation, Wärtsilä is able to provide more added value to its customers.
- Wärtsilä Services expanded its service offering into boiler services through the acquisition of the Danish company International Combustion Engineering A/S (I.C.E.) that specialises in project engineering and the service and repair of steam boilers and ancillary burner systems.
- Services continued the expansion of its network by opening and expanding offices and workshops in Namibia, Chile, Brazil, Azerbaijan, China, Turkey and Dubai.



**Our vision is to
be the most valued
business partner of
all our customers.**

Strategy

We enhance the business of our customers in the marine and energy markets by providing them with complete power solutions. We offer innovative products, services and solutions, based on constantly better and environmentally compatible technologies. Our vision is to be the most valued business partner of all our customers.

Our strategic aim is to strengthen the leading position we enjoy in our markets, and to ensure continued growth. We rely on our capability to integrate and deliver solutions from our broad equipment and service portfolio which meet the specific needs of our customer segments globally. Our priority is to offer the best efficiency, reliability and value available.

■ Ship Power

Wärtsilä Ship Power is the leading provider of engine room, propulsion, and automation and electrical solutions with a strong position in all the main marine segments.

Our vision is to be a trusted partner of shipyards and ship-owners and operators of all types of marine and offshore vessels through their life cycle, from design to services. With the broadest product and service portfolio in the industry, the ability to combine equipment and services into larger systems and solutions, and a truly global sales and service network, we are in a unique competitive position.

We understand that an attractive value proposition to our customers requires a deep knowledge of both our customers and their businesses. We know the importance of product prices, delivery precision, ease of installation and project management to our shipyard customers. We understand the priority our shipowner customers place on performance parameters like reliability, efficiency, support and cost. We are committed to develop and deliver solutions that help them achieve their business goals.

We are organised along five customer segments, each focused on meeting the specific needs of its customers. Our ship design capabilities allow us to tackle this task with the whole vessel in mind. We are capable of providing the optimal solution for our customer, from the very first, crucial specification decisions to the final operation phases.

Values

- Energy: Capture opportunities and make things happen.
- Excellence: Do things better than anyone else in our industry.
- Excitement: Foster openness, respect and trust to create excitement.

Mission

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

Vision

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

Wärtsilä aims to become a leader in ship design – acquires Vik-Sandvik



In June 2008 Wärtsilä acquired the global ship design group Vik-Sandvik, a leading independent group providing design and engineering services to ship owners and the shipbuilding industry worldwide.

This acquisition is a major step in Wärtsilä's strategy to strengthen its position as a total solutions provider and to be the most valued partner for its customers. By combining ship design capability with its existing offerings in propulsion systems and automation, Wärtsilä will be able to provide more added value to its customers, with further growth potential in new life cycle services. Wärtsilä's goal is to become the leading provider of ship design services within various segments.

"Through this major acquisition, we also aim to take a leading position in ship design as an independent activity. We also strongly believe that this new and innovative way of combining ship design know-how and equipment solutions will make us a stronger partner when working together with other ship designers," says Jaakko Eskola, Group Vice President, Ship Power.

Later in the autumn, Wärtsilä continued to expand within the field of ship design by acquiring Conan Wu & Associates Pte Ltd (CWA), a leading naval architecture and ship design company, headquartered in Singapore.

We will continue to broaden our offering and capabilities through own development, partnerships and focused acquisitions. We will also continue to strengthen our geographic presence in our key markets, especially in Asia, but also in Brazil and Russia.

■ Services

Wärtsilä Services supports its customers' business by providing the best services globally, 7 days a week, 24 hours a day. Our wide and innovative service range optimises the operating efficiency and value of the serviced ship equipment, offshore installations and power plants.

We are the leader in the industry with our unique offering of the widest scope of services from the most extensive wholly-owned service network in the world. We offer engine services, electrical and automation services, propulsion services, boiler services, operations & management and training services. Our offering comprises services beyond our own brands. We also go beyond standard products and always seek out the best technologies and customised solutions for our customers. These can include fuel conversions, retrofitted performance propulsor packages, environmental retrofits, or condition-based maintenance.

During recent years, our Services business has experienced strong growth and growth will continue through organic expansion, through acquisitions and via partnerships. We continue to develop both our global geographical presence and to broaden our services. Our position in the market provides a solid platform for further growth and a stable contribution to the Wärtsilä Group.

■ Power Plants

Wärtsilä Power Plants is a leading supplier of power plants for decentralised power generation. We provide superior value to our customers with our distributed, flexible, efficient and

environmentally advanced energy solutions, which enable a global transition to a more sustainable and modern energy infrastructure.

We focus on products and services, businesses and projects that provide unquestionable environmental benefits, and make economic sense. We are an active enabler of renewable energy sources and other sustainable and modern energy solutions, for instance as an operationally flexible part of the grid or as back-up to wind power.

We aim to be the market leader in our target segments: flexible baseload power, industrial self-generation, grid stability and peaking, and power solutions for the oil and gas industry. We have the ability to fulfil their specific needs through a strong local sales and service organisation, superior turnkey project execution, full operations support, and a distinctive product offering.

Our products are based on tried and tested concepts and deliver competitive costs, high efficiency, operational flexibility, low environmental impact, and exceptional, continuously expanding fuel flexibility. In a world where fuel availability and security are major concerns, this opens strong growth opportunities, especially in gas and liquid biofuel applications. Whatever the fuel and wherever the market, Wärtsilä's solutions maximise the efficiency of the total power plant.

■ Research & Development

Wärtsilä develops, designs and manufactures competitive engine, propulsions, emission cleaning and automation products, along with solutions based on these. In our Research & Development activities, the objective is to achieve a leading position in product technology, and specifically in the areas of environmental technology, reliability, efficiency and operational costs and automation, and to be proactive in creating innovations. The product portfolio derives from our own key compe-

2008 performance overview

Our goals →	Our achievements in 2008 →		Our priorities in the future →
<p>Ship Power: to further enhance our Ship Power Supplier concept by broadening and developing the range of integration and design, installation and engineering services.</p>	<ul style="list-style-type: none"> In July, Wärtsilä signed an agreement to acquire the global ship design group Vik-Sandvik, a leading independent group providing design and engineering services to ship owners and the ship building industry worldwide. In September Wärtsilä continued to expand within the field of ship design with the signing of an agreement to acquire Conan Wu & Associates Pte Ltd (CWA), 	<p>a leading naval architecture and ship design company in Singapore.</p> <ul style="list-style-type: none"> By combining ship design capability with our existing offerings in propulsion systems and automation, Wärtsilä will be able to provide more added value to its customers, with further growth potential in new services. 	<ul style="list-style-type: none"> To further strengthen and broaden expertise in areas of bridge, automation and ship design.
<p>Services: to further improve our competitiveness as a total services provider and to seek growth through expansion of our services portfolio.</p>	<ul style="list-style-type: none"> In March, Wärtsilä signed an agreement to acquire the Norwegian company Maritime Service AS, which specialises in ship service, and mechanical and reconditioning services. In April, Wärtsilä acquired the Danish company International Combustion Engineering A/S (I.C.E.) that specialises in project engineering and the service and repair of steam boilers and ancillary burner systems. This acquisition expands Wärtsilä's service offering into the new area of boiler services, which in turn further improves Wärtsilä's competitiveness as a leading total services 	<p>provider. Wärtsilä continued to expand its boiler services capability in June with the acquisition of the boiler services business of I.C.E.'s former subsidiary in Dubai.</p> <ul style="list-style-type: none"> In September, Wärtsilä acquired Navelec SAS, a French company specialising in marine navigation and communication systems, electrical marine services, and control and automation services. Through this acquisition Wärtsilä is able to broaden its service offering and technological knowledge in the areas of navigation and communication and broadened its geographical presence. 	<ul style="list-style-type: none"> To seek further growth organically, through acquisitions and via partnerships.
<p>Services: To further improve our competitiveness as a total services provider and to seek growth through global geographical presence.</p>	<ul style="list-style-type: none"> During 2008 Wärtsilä Services continued the expansion of its network by opening and expanding offices and workshops in Namibia, Chile, Brazil, Madagascar, Azerbaijan, China, Turkey and Dubai. 	<ul style="list-style-type: none"> Geographical expansion continues to be part of Wärtsilä's strategic focus. 	
<p>Power Plants: to focus on products, services and projects that provide unquestionable environmental and economical benefits.</p>	<ul style="list-style-type: none"> In April, Wärtsilä secured an order for an engine-driven combined heat and power (CHP) plant that will run on the liquid biofuel, which is extracted from the seeds of the jatropha plant. This CHP plant will be the first power plant in the world ever to produce both electricity and heat using crude jatropha oil as fuel. 		
<p>R&D: to strengthen the leading position in environmental solutions.</p>	<ul style="list-style-type: none"> Wärtsilä has established a new centralised environmental products know-how unit. Termed Delivery Centre Ecotech (DC Ecotech), the unit will focus on developing and delivering environmental technologies, as well as products for emissions reduction and efficiency improvement. By combining the broad and outstanding know-how within the company, Wärtsilä will strengthen its global leadership position in offering environmental technologies for power solutions. 	<ul style="list-style-type: none"> To continue strengthening our leading position in product technology, and specifically in the areas of environmental technology, reliability, operational costs. 	
<p>Establishment of strategic Joint Ventures and alliances in 2008.</p>	<ul style="list-style-type: none"> Wärtsilä and Emerson Process Management announced the expansion of their global offshore alliance in June. In July, Wärtsilä and the Manara Consortium formed a joint venture Manara Wartsila Power Ltd (MWP), which aims to become the leading developer of decentralised independent power producer (IPP) projects in Islamic countries. 	<ul style="list-style-type: none"> In September, Wärtsilä and Metso signed a contract to form a joint venture combining Metso's Heat & Power business and Wärtsilä's Biopower business. The new joint venture will be one of Europe's leading providers of medium- and small-scale power and heating plants, focusing on renewable fuel solutions. 	<ul style="list-style-type: none"> To seek further growth organically, through acquisitions and via partnerships.

Financial targets

The average growth target for our annual sales 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%. Our operating profit target (EBIT%) is 8–10% of net sales over the cycle with a range of +/- 2%. Our solvency target is 35–40%.

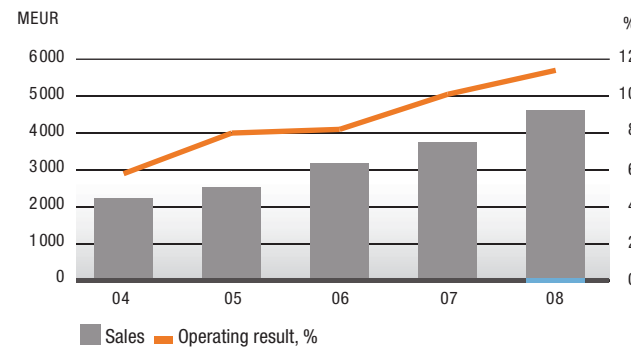
Dividend policy

Our target is to pay a dividend equivalent to 50% of operational earnings.

Prospects for 2009

Despite the risk of cancellations, the substantial order book at the end of the year should support a 10–20 percent growth in net sales for 2009, which would maintain the profitability at last year's good level. ■

Improved profitability

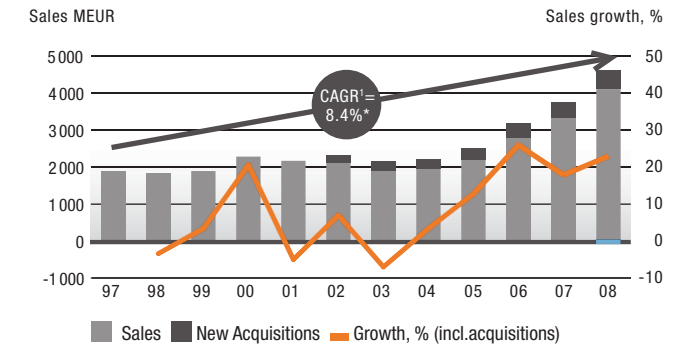


Dividend/share, earnings/share

	2008	2007	2006	2005	2004
Dividend per share	1.50 ¹	2.25	1.75	0.90	0.45
Extra dividend per share	-	2.00	-	2.10	0.45
Earnings per share (EPS)	3.88	2.74	3.72 ²	1.80	1.42 ²

¹ Proposal by the Board ² Includes non-operational income; Assa Abloy & Ovako

Growth over the cycle



¹ CAGR = Compound Annual Growth Rate

* Including acquisitions; growth excluding acquisitions 7.3%

Note: World nominal GDP growth 1997–2008 averages 6.77% USD denominated (source: IMF)

Dear shareholder,

The year 2008 will go to history as a year of contrasts for Wärtsilä. On one hand it was another record year; net sales grew by 23 percent and the profitability improved clearly. The order intake was brisk in the beginning of the year and at the end of June the order book had reached a level of 7.5 billion euros. On the other hand, due to the global financial and economic crisis uncertainty grew also in Wärtsilä's main markets. As a result, the order intake, particularly in our ship power sector, slowed down markedly during the second half of the year. The power plants markets continued active throughout the year and orders were signed right up until the very end of 2008.

In these times of lower demand and increased uncertainty the strategic measures taken by Wärtsilä during last year will be valuable. The acquisition of two of ship design companies Vik-Sandvik and Conan Wu, means that we have entered the ship design business in a larger scale. This will increase the share of the world's shipbuilding activity accessible to us. It strengthens our customer contacts and allows us better and earlier insight into the future shipbuilding trends.

Wärtsilä's decentralised power plant solutions are today a recognised enabler of economic growth in both the developing

world and in industrialised countries. In areas where oil or gas is the most viable fuel alternative for power generation Wärtsilä's modular power plants constitute a sustainable, efficient and economical means of generating power. They enable an increased use of renewables such as wind without compromising on grid stability. They also offer fuel flexibility, which in turn improves energy security.

The prime movers used by power plants are the same efficient and proven medium-speed engines as are used in the ship power applications. This means that we can flexibly utilise the engine

The year 2008 was a year of contrasts.

building capacity, which will be of particular importance as uncertainty increases within the shipbuilding industry. Wärtsilä's current production setup also otherwise offers a more flexible platform than during earlier downturns. The joint ventures in Asia that operate in partnership with first rate local companies, are well positioned to capture market share even in a shrinking market.

Services, which in 2008 represented as much as 40 percent of total group revenue, has grown in terms of both geographical presence and skills. Several acquisitions during the year have broadened the skill base and enabled the entry into a new services type, boiler service, which is now being introduced throughout the Wärtsilä network. The decision made last year to concentrate all spare part stocks to a central warehouse in the Netherlands will ultimately improve customer service and reduce costs.

The company's rapid organic growth, together with the acquisitions made during recent years, has increased the number of

personnel to around 19,000 at the end of the year. 11,000 are involved in services activities. The in-house expertise and the global coverage of the Wärtsilä network are our most important assets in positioning ourselves to meet global competition.

Today we must be prepared for an extended slow period in new Ship Power orders. Cancellations may hit part of our Ship Power order book. The power plant demand continues good, even though shortage of funding may negatively affect ordering activity. Services will continue to create a stable platform for growth. While it is difficult to foresee the extent and duration of the downturn, the effect on our activities should, at least during the current year, be limited.

Despite the risk of cancellations, the substantial order book at the end of the year should support net sales growing 10–20% in 2009 even with the risk of cancellations, which would maintain the profitability at last year's good level.

I would like to take this opportunity to thank our personnel for their undivided attention to improve the operations of our company, our customers for the trust you have shown our products and services and our shareholders for the continued interest in our company.



Ole Johansson
President & CEO



President & CEO Ole Johansson at inauguration of new full-sized research engine in Winterthur, Switzerland.

Market environment

Ship Power

■ Ship Power market drivers

Demand in the shipbuilding and shipping industries is driven by development in world economy, and its impact on trade and needed transport capacity. Other factors, such as shipyard capacity, new build prices, de-commissioning and scrapping, oil prices, interest and freight rates, and environmental considerations, also affect these industries. The main market driver for our Ship Power business is the global demand for new vessels, in particular ships built for seaborne cargo transportation, offshore oil exploration and support, cruise and ferry services, as well as naval contracting. Geographically the hub of the shipbuilding industry is Asia, headed by China and Korea. European shipyards concentrate mainly on special-purpose vessels, passenger ferries, and cruise ships.

■ Shipping and shipbuilding development

Both the shipping and shipbuilding markets have experienced the biggest boom ever during the past years and the expansion of Chinese and other emerging economies has led to a huge demand for raw materials and a surge in exports of manufactured goods. This coupled with very prospective oil price development in turn has led to high freight rates and investments in new vessels and applications have been on all time highs during the past years. With the financial crisis that started already in

2007 the uncertainty of the global economy increased and at the end of 2008 the size of the financial crisis and the implications of it on global economy became clear. The uncertainty has clearly impacted investments in new vessels as well as plans to invest in new yards and demand for new vessels has slowed down dramatically towards the end of 2008. It is difficult to judge at what levels the ordering of new vessels will end after the most acute crisis is over, but it is clear that demand has slowed down dramatically.

The importance of environmental issues has increased in shipping with the enforcement of environmental regulation at global and local levels. This puts pressure on the marine industry to constantly investigate new ways of reducing the environmental impact of ships.

■ Competitors and market position

Wärtsilä Ship Power has continuously broadened the range of engine and propulsion equipment offering. Our competitive advantage lies in having the broadest offering in the industry and the best service support throughout the life cycle of the product.

We are the market leader in medium-speed main engines. Our largest competitors are the other main suppliers of medium-speed diesel engines, MAN Diesel and Caterpillar (MAK). These medium-speed main engine suppliers have their own manufacturing capacity focused within Europe.

In the market for low-speed engines, MAN Diesel is the leading designer followed by Wärtsilä and Mitsubishi Heavy Industries. Because of their size and related transportation considerations, low-speed engines are mainly manufactured under license in Asia, close to the shipyards where the larger ships are built. During 2009, our joint venture with Chinese shipbuilding company CSIC and Mitsubishi Heavy Industries, to manufacture low-speed engines in China, will become operational. The aim

is to improve our position and competitiveness in low-speed engines, as well as to further expand our presence in Asia.

The market for auxiliary engines is fragmented and competition is intense. As a response to this competition, we set up a joint venture company in China in 2006 concentrating on auxiliary engines. Our competitors in the auxiliary engine segment are mainly MAN Diesel and its license manufacturers, the HIMSEN engine designed and manufactured by Hyundai Heavy Industries, and high-speed engine manufacturers.

In propulsion equipment, the competitive environment varies from one application area to another. Rolls-Royce and Schottel are the main competitors in CPP and steerable thrusters. In FPP the competition comes mainly from Asia - Hyundai Heavy Industries and Mitsubishi Heavy Industries being the main players, together with the German producer Mecklenburger Metallguss. In the thrusters categories competition is very fragmented.

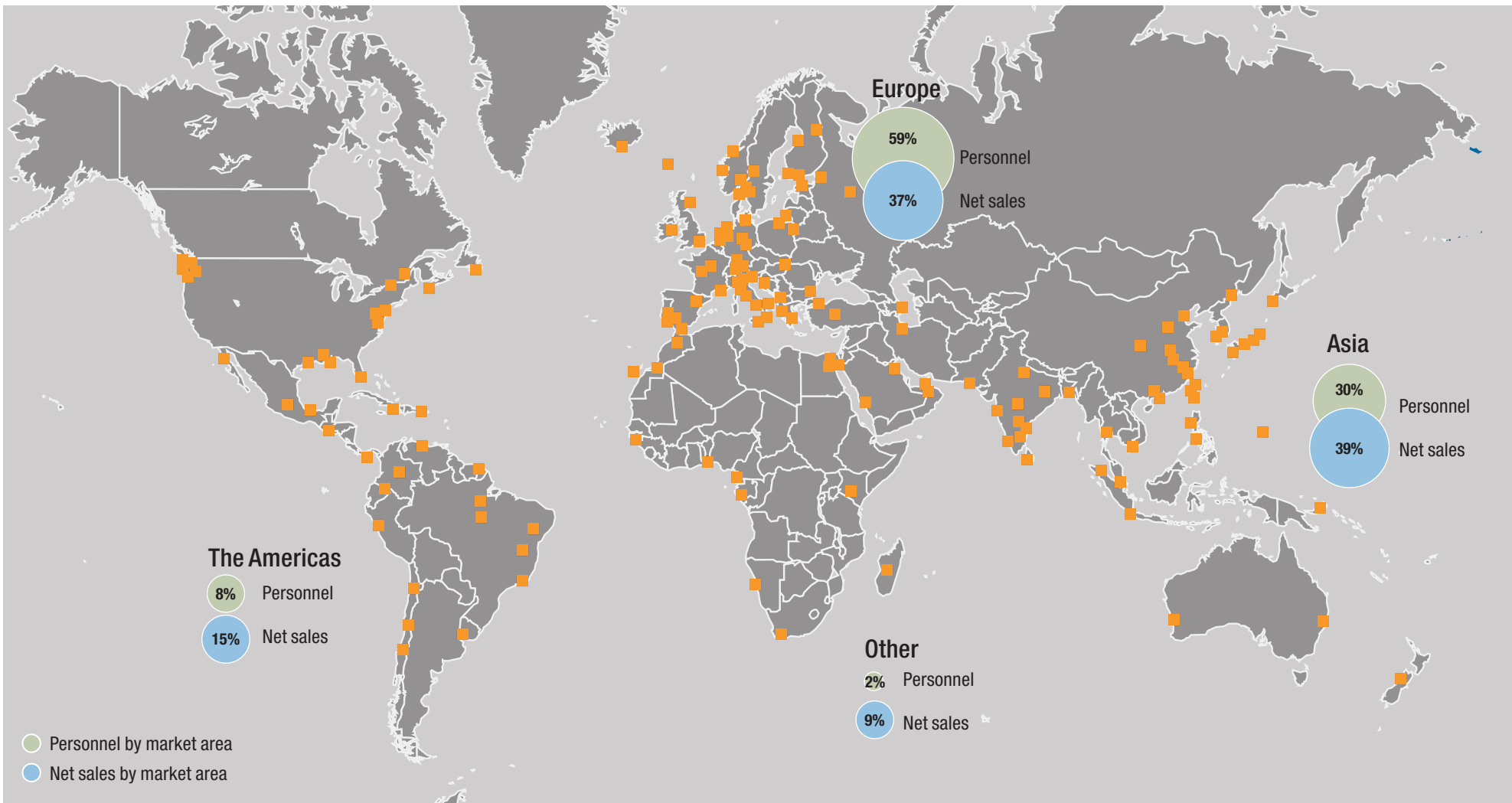
Services

■ Demand drivers in Services

The main driver for our Services business is life cycle efficiency, for which the availability, reliability, and economy of the equipment and installations are paramount. Amongst other issues driving growth in the services market are environmental concerns, the implementation of new legislation, the need to lower operating costs, modernisation, enhanced safety, as well as O&M outsourcing.

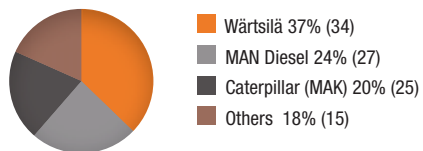
■ Competition and market position

There is no competitor with the ability to supply such a broad offering, 24/7 from one single source. Each service therefore has its own set of competitors and challenges. There are only a few global players to talk of, and thus competition is mainly local.

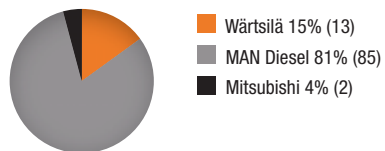


Market position of Wärtsilä's marine engines 2008

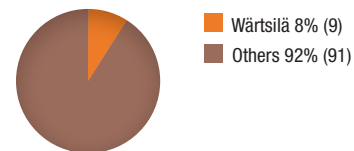
Medium-speed main engines



Low-speed main engines



Auxiliary engines



Wärtsilä's own calculation is based on Marine Market Database. Market shares based on installed power, numbers in brackets are from the end of the previous quarter.



We are the leading provider of Ship Power solutions. As a supplier of highly rated ship machinery and systems, we command a strong position in all the main marine segments.

Our strategy is to be a trusted partner to our customers through the life cycle of all types of marine and offshore applications, from design to services. Our goal is to broaden our expertise and capabilities through organic growth, partnerships, and acquisitions, and by further strengthening of our position in key market areas, such as Asia and BRIC countries, by emphasising life cycle customer support. With the broadest product portfolio in the industry, the ability to combine products into larger products and solutions, and a truly global sales and service network, we are in a unique competitive position.

■ Our customer structure is two-fold

Our two customer groups are shipyards and ship owners, and we must meet the needs and demands of both. Shipyard decisions are determined by product prices, delivery times and reliability, project management, and ease of installation, along with other factors related directly to the shipbuilding process. The priorities for ship owners, on the other hand, are reliability, operational economy and support, as well as the availability of services. Other issues affecting decision-making are freight rates, fuel prices, interest rates, and the cost of the ship. The variables also differ according to vessel type.

■ A customer driven approach

We create more value for our customers through a deeper understanding of their businesses and needs. We understand that an attractive value proposition to our customers implies a deep knowledge of both our customers and their businesses, and we undertake to generate solutions that help them achieve their business goals. To be able to serve our customers in such a way, we have divided our business into 5 customer segments:

■ **Merchant** – includes all vessels for seaborne transportation, such as container vessels, tankers, bulk carriers, LNG carriers, RoRo, and other cargo vessels.



“We want to be our customers’ trusted partner through the life cycle of their applications, from design to services.”

Jaakko Eskola
Group Vice President, Ship Power

■ **Offshore** – includes vessels and platforms used in oil and gas exploration and production, as well as their support activities; drilling rigs and ships, anchor handling vessels, offshore research vessels, floating production units, platform supply vessels, etc.

■ **Cruise&Ferry** – includes cruise vessels, passenger ferries, passenger/cargo ferries, fast ferries, and yachts.

■ **Navy** – includes various kinds of naval vessels and submarines.

■ **Special vessels** – includes a broad range of different vessels, the main categories being tugs, fishing vessels, dredgers, and research vessels.

By combining our Ship Design capabilities with our product portfolio and customer segment expertise, we have increased the growth potential in new life cycle services, while at the same time adding value for our customers.

■ Ship Power products

Our engine room and propulsion solutions for marine applications are reliable, economical, and environmentally sound. Our reputation in the marine industry is based on our design capa-

bilities, our long manufacturing heritage, and the technological leadership of our solutions. We have continuously broadened the range of our engine and propulsion equipment offerings. Our strength lies in having the broadest offering in the industry:

- Medium-speed diesel and gas engines
- Low-speed engines
- Propulsors, propulsion packages
- Seals and bearings
- Automation systems
- Solutions
- Ship design

Our strategy is to be the sole Ship Power supplier to our customers. Through this strategy of having a full portfolio of product offerings, we offer our shipyard customers added value by enabling them to concentrate on their core expertise, while at the same time reducing the risk of equipment interface problems. For ship owners, the single supplier concept brings benefits in terms of operations and maintenance.

Ship Power and sustainability

Increased environmental concerns and climate change puts pressure on the marine industry to constantly investigate new ways of reducing the environmental impact of ships. Wärtsilä is the technology forerunner and leading provider of complete life cycle power solutions, which call for new and competitive, innovative and efficient applications. We are continuously developing and enhancing our solutions to better meet the future need and demand for environmentally sound solutions. Optimisation of total ship efficiency becomes even more important. Utilisation of alternative fuels, e.g. natural gas, will become an option in



Busan harbour in South Korea. In October 2008 Wärtsilä-Hyundai Engine Company, a joint venture between Wärtsilä and Hyundai Heavy Industries (HHI), inaugurated its new factory in Korea.

certain business segments. We have developed several concepts, which improve total ship efficiency and enable the use of natural gas in the ships. The compliance with the regulations is a natural starting point for all our product development. Additionally the development focus for our Ship Power business is in efficiency improvement and emission reduction. We strive to be at the forefront in all environmental and sustainability issues.

■ Compliance with regulations

On the 9th of October 2008, the International Maritime Organization (IMO) approved amendments to the MARPOL Annex VI regulations on ship emissions. The amended regulation on NO_x emissions will be introduced in two additional tiers; Tier 2 repre-

sents a global 20% NO_x cut from the present Tier 1 level and will come into force in 2011, and the Tier 3 level in 2016 represents a massive 80% NO_x reduction when applied to specific designated NO_x Emission Control Areas. The engine concepts for meeting the Tier 2 NO_x level are ready for the whole Wärtsilä marine engine portfolio and some engines are already pre-certified. For Tier 3 the “Selective Catalytic Reduction” (SCR catalyst) represents a means by which the level can already be achieved today. Wärtsilä has over 100 SCR equipped engines in operation. Wärtsilä is currently investigating and developing other measures to ensure cost efficient compliance with IMO Tier 3 regulations. The revised Annex VI also set limits on the fuel sulphur content. Wärtsilä engines are designed for operation on any fuel sulphur content.

■ Efficiency improvement

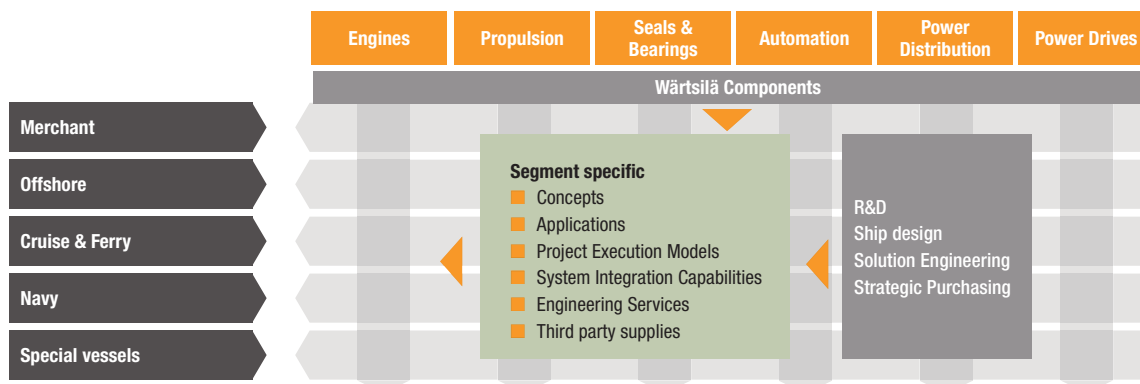
We are constantly seeking to find better propulsion machinery solutions for ships. This includes looking not only at the engines and propellers, but at the entire ship concept. We have gained experience working with our partners in the design of various vessel types. Examples include the LNG carriers equipped with our dual fuel engines, and the environmentally advanced RoPax vessels. In order to inform our customers more about the possibilities to improve efficiency, we published an efficiency guide called “Boosting energy efficiency”, which includes various measures to improve ship efficiency.

■ Emissions reduction

Most harbours in the world are located close to densely populated areas, hence the strong demand during recent years for non-visible-smoke. Common-rail technology makes it possi-

ble to provide smokeless engines, and we have the broadest range of common-rail technology for heavy fuel oil operations in the industry. Reducing NO_x emissions continues to be of high importance in the marine business, and we will continue to develop our equipment accordingly. Our existing engines can also be modified with developed NO_x reduction technologies both primary (e.g. WETPAC-H) and secondary methods (e.g. SCR). Wärtsilä introduced new Nitrogen Oxides Reducers (NOR) based on SCR technology, which enables the engines to meet the IMO Tier III NO_x requirements even today. To reduce CO₂ and SO_x emissions we have increased the efficiency of the engines and whole ships as well as developed multifuel engines. To reduce emissions to the water, our sealing systems offer environmentally sound alternatives that prevent the spilling of oil from ships into the environment. We also offer efficient treatment systems for sludge and bilge water. ■

Wärtsilä has the most extensive value proposition in the industry



PASSIONATE

Passionate mind, dedicated to success



During recent years Wärtsilä has made several acquisitions within ship design. Arne Birkeland, head of the new Wärtsilä Ship Design unit knows what it requires to work in a truly global corporation. “Heading 500 people in 14 different countries calls for passionate management style: openness, straightforwardness and dedication,” Birkeland says. “When integrating the different units in Norway, I strongly feel that my personal passion to get it right was an important factor,” he continues.

Birkeland believes that Wärtsilä Ship Power has all the conditions for being successful in the future. Strong customer relations, global presence, and the ability to offer solutions that will add value to the customers are behind the Wärtsilä success story. “Contributing to Wärtsilä’s goal to become a leader in ship design and seeing the results of our actions is what motivates me. Wärtsilä has a unique culture of giving you responsibility and a chance to make things happen,” Birkeland concludes.

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SERVICES

Wärtsilä Services supports its customers businesses by providing the best services in the industry, and thereby optimising their operations and product life cycle. Today we are more than 11,000 service professionals in more than 160 locations in over 70 countries around the world.

The goal of Wärtsilä Services is to strengthen its leading position in the marine and power plant markets, and to broaden its unique service offering in order to support its customers. We offer our customers 24/7 support with, for example, logistics, technical support, and field service. Wärtsilä Services has experienced strong growth during the past years and is today the largest business area within the company, thus providing a stable platform for Wärtsilä's growth. Further growth is sought by broadening the geographical presence, through partnership agreements, acquisitions, and from organic actions. Wärtsilä is the only player in the market being able to provide such a wide range of solutions from one source.

Our Services

Our Services business covers both the Ship Power and Power Plants businesses in their entirety. The base for Wärtsilä's Services business has traditionally been our own installations, but we are continuously expanding our services and solutions portfolio through acquisitions and innovations. Today our portfolio includes a broad service offering and several solutions and we also serve other brands.

Our Services

- Engine Services
- Propulsion Services
- Electrical & Automation Services
- Boiler Services
- Operations & Management
- Training Services

■ Boiler Services

The latest addition to our portfolio is the Boiler Services which further improves Wärtsilä's competitiveness as a leading total



"We provide a wide range of innovative solutions that optimise the life cycle efficiency of our customers' equipment."

Mr Tage Blomberg

Group Vice President, Services

services provider. This new service provides repair of oilfired boilers as well economisers including engineering capability to redesign and upgrading of economisers. Our Boiler Services portfolio includes further general inspection services, condition based services as well as supplying spare parts for steam boilers, ancillary burners, economisers and their control systems. Wärtsilä sees considerable potential in Boiler Services and it will be one of Services growth areas in the future.

■ Automation Services

During recent years, Wärtsilä Services has taken an important step in its strategy to become a total solutions provider by adding Automation Services to its offering. Automation Services covers a wide range of technical systems regardless of the manufacturer onboard ships, offshore installations, and land based power and industrial utilities.

The core competences include automation systems, control and instrumentation systems, power generation and distribution systems, as well as navigation and communication systems. Specific know-how exists in the areas of control and instrumentation engineering, electrical and electro-mechanical engineering, hydraulic engineering, power systems engineering, and systems



integration. Automation Services is able to provide turnkey solutions for complex systems upgrades, retrofits, and midlife extensions, including the in-house manufacturing of customised system components such as switchboards and control panels.

■ Propulsion Services

Our Propulsion Services provide state-of-the-art solutions for any type of propulsion or shaft-sealing problem in fixed or controllable pitch propellers, steerable thrusters, transverse thrusters and, among other things, gears, water jets, bearings and stern tube seals.

We provide basic services, such as the supply of parts and maintenance repairs. Additionally, we offer advanced performance packages, such as for propulsion improvement.

Propulsion Services applies new propulsion technology and design knowledge to improve the efficiency of older vessels. Fuel consumption can be decreased by 5% through propeller polishing, by repairing a damaged edge, or by replacement with a modern design propeller. A decrease of 10% can be achieved with a modern design with a tip rake, an rpm-adapted propeller efficiency rudder, and propeller-engine interaction, or even up to 15% with a ducted propeller.

■ Operations & Management Services

Service agreements are the most effective way to ensure the reliable and environmentally sustainable operation of a product. The contracts range from supply agreements that ensure the supply of parts and materials to a specific location, training agreements where we help our customers to maintain their installations at optimum performance levels, global customer agreements where several vessels are covered, up to operation and maintenance agreements whereby Wärtsilä takes full control of the plant and guarantees overall performance. For our power plant customers, operations and management agreements are more common, and we are responsible for ensuring that the installations meet set performance targets and lifetime criteria, thus freeing owners to concentrate on their core business.

Services and sustainability

■ Retrofitted new technology

Sustainability can also be interpreted as being the ability of equipment to reliably deliver performances required by design or regulations. As regulations change with time, upgrades will always be necessary to keep equipment up to date with legislation. These retrofits are made to improve both economic and environmental performance, as well as the safety and reliability of systems, throughout their life cycle.

■ Engine and fuel conversions

Environmental regulations from the International Marine Organisation, in Europe, the US EPA, and the World Bank are becoming increasingly stringent. Several fuels, such as bio fuels, low sulphur heavy fuel oil, and gas are now available to cope with these requirements, and the capability to run an installation on

Reduction of CO ₂ emissions	Reduction of NO _x emissions	Reduction of SO _x and particulates (PM) emissions
<ul style="list-style-type: none"> ••• Conversion to gas operation •• Improved propulsion efficiency • In-engine modification for improved fuel efficiency 	<ul style="list-style-type: none"> ••• SCR catalyst •• Conversion to gas operation •• Wetpac DWI (Direct Water Injection) •• Wetpac H (Intake Air Humidification) <ul style="list-style-type: none"> • In-engine Low NO_x conversion • Wetpac E (Water-in-Fuel Emulsion) 	<ul style="list-style-type: none"> ••• Conversion to gas or biofuel operation (SO_x and PM) ••• Scrubber (SO_x) ••• Electrostatic precipitator (PM) <ul style="list-style-type: none"> • Conversion to Common Rail fuel injection system (PM) • Wetpac E (Water-in-Fuel Emulsion) (PM) • Anti Polishing Ring (PM) • Tribo Pack (PM) • Pulse Lubricating System (PM)
Reduction of oil spill to sea	Improvement of operation	
<ul style="list-style-type: none"> ••• Wärtsilä Oily Water Separator •• Conversion to Wärtsilä non-polluting seal system •• Conversion of complete stern-tube to water lubricated system using Wärtsilä seals and bearings package 	<ul style="list-style-type: none"> - Emission measurement services - Training services - O&M agreements - CBM (Condition Based Maintenance) - e-Services - System Audits - Control system upgrading including optimisation of operation 	

••• High potential •• Substantial potential • Moderate potential

a different fuel, or switch from one to another, has become a common request from the market. Wärtsilä Services provides engine conversions as a simple way to restore profitability, and to comply with environmental requirements.

■ Condition Based Maintenance (CBM)

CBM service is based on a unique combination of local inspections and remote monitoring of the mechanical condition and operating data of the plant. The system makes predictive maintenance possible, which in turn minimises interruptions to operations, increases safety, and optimises plant performance. Units linked to the CBM system are not serviced on a regular basis, but service is based on real need.

■ Environmental technology

We develop and supply a wide range of solutions that enable customer installations to comply with prevailing environmental requirements. We offer solutions that make it possible to modify or regulate most engines in order to conform to the strictest environmental requirements. This applies to plant upgrades with secondary emission control technologies, such as SCR, for power plant or marine applications. ■

DOER

Wärtsilä team spirit behind ambitious achievements



Propulsion manager Mike Fitzroy from Wärtsilä South Africa has a reason to be happy. After initiating propulsion workshops in Cape Town and Walvis Bay from the grass roots he is close to seeing them in full operation soon. Fitzroy believes that the supportive working environment of Wärtsilä has been essential in achieving this goal. "Of course it requires personal dedication, good organisational skills and product knowledge as well, but without team spirit we would probably not be anywhere close to where we are today," he says. "An achievement that made my staff very proud and committed in what they do is the casting of the first "Class Approved" FP propeller in Africa," he continues.

Fitzroy believes that the Wärtsilä spirit and strong brand together with global presence, product diversity, staff training and technical support will guarantee the success of Wärtsilä Services in the future. "We are doers and we are ready to do whatever is expected of us," he promises.

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Wärtsilä Power Plants provides superior value for its customers by offering decentralised, flexible, efficient, and environmentally advanced energy solutions. Wärtsilä's technology enables a global transition to a more sustainable and modern energy infrastructure.

The strengths of Wärtsilä's Power Plants offering are based on fuel flexibility, high efficiency, low environmental impact, and competitive costs. These, in combination with full life cycle support, including operations and management and other service packages, put us in a good position within the power generation markets.

Our global sales and service organisation gives us the ability to engage our customers locally, and through a thorough understanding of our customers' business and their needs, we can offer them optimally tailored solutions. Unique project execution skills, from the very first planning stage to installation and logistics, clearly define our way of working. Today, the majority of Wärtsilä's power plant projects are turnkey deliveries.

Wärtsilä's power plant solutions are based on engines that run on liquid fuels, a wide range of gases, and on renewable fuels. Most of our products have multi-fuel capabilities and all can be converted from one fuel to another. Our customers are divided into four different customer segments; flexible baseload, grid stability and peaking, industrial self-generation and solutions for the oil and gas industry.

■ Flexible baseload

Wärtsilä's flexible baseload power plants are supplied mainly to developing markets, islands, and remote areas. As electricity consumption grows in these regions, demand for new power generation steadily increases. Wärtsilä's customers in this segment are mainly Utilities and Independent Power Producers (IPP's). Typical customer needs in this segment include competitive life cycle costs, reliability, world-class product quality, and fuel and operation mode flexibility, as well as operations and management services. Wärtsilä has the capabilities to cater perfectly to all these needs. The ability to provide multi-fuel options is an obvious strength in this segment where power plants run on both liquid fuels and gas.



"Our advanced energy solutions enable a global transition to a more sustainable and modern energy infrastructure."

Mr Christoph Vitzthum
Group Vice President, Power Plants

■ Grid stability and peaking

Wärtsilä provides dynamic solutions for ensuring stable energy production in the industrialised world. These solutions are used for wind chasing, ancillary services, and for peaking needs. Customers in the grid stability segment are mainly Utilities and IPP's. The main competitive advantages of Wärtsilä's products are their dynamic features, such as start-up and ramp up to full load, and their ability to operate at varying loads. Other competitive advantages include competitive generation and capacity costs, supported by 24/7 service. The grid stability and peaking plants are mainly fuelled by gas with the main competition coming from gas turbine suppliers. Wärtsilä's grid stabilising power plants enable the growth of wind and solar power energy solutions.

■ Industrial self-generation

Wärtsilä offers Power Plant solutions to industrial manufacturers, mainly within the cement and mining industries. For these customers, reducing energy costs, reliability, and independence from the grid, together with 24/7 service are essential features in guaranteeing their own manufacturing process and competitiveness. Depending on fuel availability, power plants in this customer segment are usually run on either gas or liquid fuel.



■ Oil and gas industry

Wärtsilä offers engines for mechanical drives, gas compression stations, field power, and pumping stations to oil and gas companies. Typical customer requirements are maximum running time, reliability, long-term engineering support, and around-the-clock service. The solutions provided run on natural gas, associated gases, or crude oil.

Power Plants and sustainability

As energy consumption grows, the demand for new power generation equipment is increasing at a corresponding rate. At the same time, fuel sources are diminishing while prices are increasing due to the scarce availability of resources in the long run. Increased environmental and climate change concerns are leading to a stronger focus on environmental issues and stricter environmental regulations within the power plants industry. For Wärtsilä this means that we are continuously developing and enhancing our solutions to meet even the most stringent regu-

lations, while at the same time offering flexible solutions with high electrical efficiency, to better meet the future needs and demand for environmentally sound solutions.

■ Compliance with regulations

A core principle in the development of our power plants is to meet guidelines set by the World Bank. In recent years, compliance with these guidelines has become more widespread, largely because an increasing number of financial institutions and credit agencies are committed to complying with these standards in their environmental policies. In 2008 World Bank set more stringent emissions limits for small power plants, while guidelines for thermal power are still under review. Wärtsilä's power plants are designed to facilitate lower emission levels as necessitated by ambient air quality, national legislation, or project-specific issues.

■ Flexibility

Flexibility is one of the main features of Wärtsilä's power plant solutions. In terms of scope of delivery, our offering can vary from complete turnkey power plants to equipment supply. The high modularity of our products makes it easy for our customers to expand or modify their power plants to meet future needs. Fuel flexibility has many advantages for our customers, notably the optimisation of energy production costs by using low cost fuels, using available fuels, and by the ability to convert from one fuel to another. We are the technology enabler for power plants burning a wide range of gases and liquid fuels, including vegetable oils.

■ High efficiency and cost competitiveness

Wärtsilä's engine driven power plants offer energy cost benefits that cannot be matched by other power plant technologies. Energy efficiency is important, not only in terms of energy economy, but also because it reduces both the use of limited natu-

Environmental regulations – power plant operation



ral resources, and the emissions produced per unit of energy. Our power plants are operationally flexible and can easily be adapted to the needs of the electricity grid. The output of our power plants can be regulated by varying the number of units in operation, and by optimising their individual outputs. Rapid start-up, good load characteristics, and high efficiency also at partial loads, are among strengths that give Wärtsilä's solutions a clear competitive advantage in terms of cost competitiveness.

■ Reducing emissions

Wärtsilä places high priority on developing diverse and flexible emission reduction techniques. Since emission requirements and the fuels used widely differ, a comprehensive range of products is required as a basis for competitive solutions. ■

CREATIVE

Developing future power solutions



In a highly competitive and ever-changing business environment customers no longer want standard power solutions. 'Tailor-made' is the key word in future energy demand, believes Robson Campos, Regional Director, Wärtsilä Power Plants in Brazil. He does not feel threatened by future challenges but rather enjoys the excitement. On the technology side, Wärtsilä strives to be one step ahead of the competition all the time. That makes Wärtsilä an interesting place to work, Campos says.

In 2008 Wärtsilä received altogether seven orders for Power Plants in Brazil. "Sometimes it requires creativity and ability to put yourself in customers' shoes to better understand their needs," says Campos. "Good relationships with the customers together with the unique service strategy will keep Wärtsilä Power Plants competitive into the future," Campos predicts.

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Emission reduction technologies

Emission component	Technology	Principle	Benefit	Typical use
Reducing particle emissions	Choosing a better fuel type (ash/sulphur)	Using a fuel with a smaller ash and sulphur content reduces the particle emissions produced during combustion.	Fuel-specific	Diesel engine / heavy fuel oil
	Electrostatic filter	In an electrostatic filter, the particles in the flue gas are charged with an electric current and the charged particles are collected on the surfaces of the filter's collector plates. A smallish amount of flue ash is generated as an end product. The particle content achieved also depends on the quality of fuel used.	The particle content of gas discharged through the filter normally varies between 20 and 50 mg/nm ³ (15% O ₂).	Diesel engine / heavy fuel oil
Reducing NO _x emissions	WetPac – H (humidity control)	The combustion air is humidified by injecting water into it, which lowers the combustion temperature and reduces emissions of nitrogen oxides. The amount of injected water required is determined according to air humidity, thus minimising water consumption.	Typical emissions are reduced by approx. 15–20% at the minimum air humidity level.	Diesel engine
	SCR (Selective Catalytic Reduction)	Nitrogen oxides (NO _x) are reduced into nitrogen (N ₂) and water vapour (H ₂ O) using ammonia or urea at a suitable temperature on the surface of the catalyst. Process control enables the amount of inactive ammonia in the flue gas to be kept low.	Collection efficiency 80–90%. Larger collection efficiencies are possible, but not cost-efficient.	Diesel or gas engine
Reducing SO ₂ emissions	Lower sulphur content in fuel	The sulphur content of fuel is directly proportional to the sulphur dioxide emissions generated.	Fuel-specific	Diesel engine / heavy fuel oil
	NaOH FGD (Flue Gas Desulphurization)	Sulphur dioxide is removed from the flue gas in a tower washer. Sodium hydroxide is used to neutralise the washing fluid. The plant produces wastewater as an end product, which should be treated.	A typical collection efficiency for SO ₂ is approx. 90%.	Diesel engine / heavy fuel oil with low sulphur
	Limestone FGD (Flue Gas Desulphurization)	The limestone cleaner is based on a wet tower washer in which sulphur dioxide is absorbed from the flue gas. Calcium, for which a disposal procedure should be determined, is produced as an end product.	A typical collection efficiency for SO ₂ is 80–90%.	Diesel engine / heavy fuel oil with high sulphur
Reducing CO emissions	Oxidation catalyst	Carbon monoxide is oxidized into carbon dioxide on the surface of the catalyst using the oxygen in the flue gas.	Depending on the amount of catalyst used, discharge efficiency is 30–90%.	Gas engines
Reducing hydrocarbon emissions	Oxidation catalyst	Hydrocarbons are oxidized into carbon dioxide and water vapour on the surface of the catalyst using the oxygen in the flue gas.	Discharge efficiency depends on both the catalyst chosen and the hydrocarbons involved.	Gas engines

Monitoring of emissions

Emission component	Technology	Principle	Benefit	Typical use
Monitoring of gaseous emissions	Secondary method – fuel and process parameters	The secondary method is based on periodical flue gas measurements as well as on the systematic monitoring and reporting of certain process and fuel parameters.	Reliable measuring, minimal need for expertise at the plant, suitable for different market areas.	Diesel engine – typically e.g. SO ₂ emissions
	Continuous emissions monitoring (CEMS/AMS)	Emissions levels can be monitored constantly using automatic equipment. The operation and maintenance of the equipment requires personnel expertise to ensure reliable performance. The results reported may be uncertain if the necessary expertise is not available.	Actual emissions and exceedings are monitored and registered continuously.	Diesel or gas engine – typically e.g. NO _x emissions
Monitoring of particle emissions	Secondary method – fuel and process parameters	The secondary method is based on periodical flue gas measurements as well as on systematic monitoring and reporting of certain process and fuel parameters.	Reliable measuring, minimal need for expertise at the plant, suitable for different market areas.	Diesel engine
	Continuous emissions monitoring	Constant particle measurement is usually based on secondary monitoring, e.g. analysers that monitor opacity or light diffusion. Calibration based on reference monitoring gives a correlation with the parameter monitored. If the fuel and load conditions vary, the monitoring may not yield reliable results.	The apparent emissions level is monitored constantly and any limits exceeded are registered automatically.	Diesel engine

CORPORATE GOVERNANCE REVIEW

- 32 Corporate Governance statement 2008
- 42 Risks and risk management
- 47 Shares and shareholders
- 52 Wärtsilä on the capital markets 2008



DOING IS OUR ATTITUDE



Corporate Governance statement 2008

Wärtsilä Corporation applies the guidelines and provisions of its Articles of Association, the Finnish Limited Liability Companies Act and the rules and regulations of NASDAQ OMX Helsinki Exchanges. Wärtsilä also complies with the Finnish Corporate Governance Code 2008 for listed companies. The Code is publicly available on www.cgfinland.fi.

■ Tasks and responsibilities of governing bodies

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

■ General meetings of shareholders

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

A General Meeting of Wärtsilä Corporation shareholders is held at least once a year. The Annual General Meeting (AGM) must be held no later than the end of June. Under the Articles of Association, an invitation to a General Meeting shall be published in at least two daily newspapers in common circulation in Finland, as decided by the Board of Directors, not earlier than two months prior to the meeting and not later than 17 days before the meeting. Wärtsilä also publishes its invitations to General Meetings as stock exchange announcements and on its internet website. Shareholders have, according to the law, the right to put items falling within the competence of the General Meeting on the agenda of the General Meeting, if the shareholder so notifies the Board of Directors in writing well in advance of the General Meeting so that the item can be added to the notice of the General Meeting.

■ Annual General Meeting 2008

Wärtsilä's Annual General Meeting on 19 March 2008 approved the financial statements and discharged the members of the

Board of Directors and the company's President & CEO from liability for the financial year 2007. All related documents can be found on our website www.wartsila.com.

■ The Board of Directors

Responsibility for the management of the company and the proper organisation of its operations is invested in the company's Board of Directors, which has between five and eight members. Board members serve for one year at a time and are elected by a General Meeting. The majority of the directors shall be independent of the company and at least two of the directors representing this majority shall be independent of significant shareholders of the company. Information on the Board composition, Board members and their independence can be found on page 39.

The proposal for board composition shall be included in the notice of the general meeting. The same applies to a proposal for the composition of the board made by shareholders with at least 10% of the votes carried by the company shares, provided that the candidates have given their consent to the election and the company has received information on the proposal sufficiently in advance so that it may be included in the notice of the general meeting. The candidates proposed in corresponding order thereafter shall be disclosed separately.

The Board elects a chairman and deputy chairman from among its members. The Board steers and supervises the company's operations, and decides on policies, goals and strategies of major importance. The principles applied by the Board in its regular work are set out in the Rules of Procedure approved by the Board. The Board has also approved the rules of procedure applied by the Board's committees setting out the main tasks of the committees and their working principles.

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

The Board conducts an annual evaluation of its operations and working methods. The purpose of this evaluation is to establish how the Board has executed its tasks during the year and to act as a basis when assessing how the Board functions.

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

■ Board of Directors in 2008

In 2008 the Board of Directors consisted of 6 members; Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Kari Kauniskangas, Mr Antti Lagerroos (chairman), Mr Bertel Langenskiöld and Mr Matti Vuoria (deputy chairman).

During 2008 Wärtsilä's Board of Directors held 12 meetings. The average attendance of all directors was 93%.

■ The Board's committees

The Board of Directors annually appoints an Audit Committee, a Nomination and Remuneration Committee, and may also nominate any other committees if considered necessary at its constitutive meeting following the Annual General Meeting. The Board appoints the members of these committees and their chairmen. The Board also has the right to remove a member from a committee. The members of each committee are appointed for the same term of office as the Board itself. The purpose of the Board's committees is to prepare matters to be put before the Board for its decision. The committees have no decision-making authority of their own.

■ The Audit Committee

The Board of Directors appoints an Audit Committee to assist it in the execution of its task of supervising the company's financial management. The Board appoints from among its members at least three members to the Committee. The members shall

have the qualifications necessary to perform the responsibilities of the Audit Committee.

The Board defines the duties of the Audit Committee in the charter confirmed for the committee. The Audit Committee monitors the reporting process of financial statements, supervises the financial reporting process, monitors the efficiency of the internal control, internal audit and risk management systems. Further more the Committee reviews the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, monitors the statutory audit of the financial statements and consolidated financial statements, evaluates the independence of the statutory audit firm and prepares the proposal for resolution on the election of the auditor.

■ Audit Committee in 2008

Chairman Antti Lagerroos, members Maarit Aarni-Sirviö, Matti Vuoria. Two members are independent of the company and all are independent of significant shareholders. The Audit Committee met 4 times in 2008.

■ The Nomination Committee

The Board of Directors appoints a Nomination Committee to assist it in its work. The Board appoints at least three of its members to serve on the Committee. The majority of the members of the Committee shall be independent of the company.

The Board defines the duties of the Nomination Committee in the charter confirmed for the Committee. The Nomination Committee prepares, as necessary, the nomination of the President and CEO, the Executive Vice President and the CEO's deputy. The Committee communicates, as necessary, with major shareholders in matters concerning the appointment of the Board of Directors.

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

- the annual and interim financial statements,
- the matters to be put before General Meetings of shareholders,
- the appointment of the President and CEO,
- the appointment of the Executive Vice President and the CEO's deputy if any,
- and the organisation of financial supervision in the company.

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

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

The Chairman of the Nomination Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and, when necessary, on the Committee's meetings to the Board.

■ Nomination Committee in 2008

Chairman Antti Lagerroos, members Matti Vuoria, Kaj-Gustaf Bergh. Two members are independent of the company. The Nomination Committee met once in 2008.

■ The Remuneration Committee

The Board appoints a Remuneration Committee to assist it in its work. The Board appoints at least three of its members to sit on the Committee.

The Board defines the duties of the Remuneration Committee in the charter confirmed for the Committee. The Committee prepares proposals to be put before the Board of Directors concerning the incentive schemes and remuneration that apply to the President and CEO and the company's other senior executives. The chairman of the Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and, when necessary, on the Committee's meetings to the Board.

■ Remuneration Committee in 2008

Chairman Antti Lagerroos, members Matti Vuoria, Bertel Langenskiöld. Two members are independent of the company. The Remuneration Committee met once in 2008.

■ The President and CEO and the Executive Vice President

The Board of Directors appoints a President for the Group who is also its chief executive officer. The President and CEO is in charge of the day-to-day management of the company and its administration, in accordance with the company's Articles of Association, the Finnish Companies Act, and the instructions of the Board of Directors. He is assisted in this work by the Board of Management. The President and CEO of the company is Mr Ole Johansson. The Board of Directors appoints, if necessary, one or several executive vice presidents. The company's Executive Vice President is its Chief Financial Officer Raimo Lind. Mr Lind also acts as the deputy to President and CEO Ole Johansson.

■ The Board of Management

The company's Board of Management comprises the President and CEO, the Group Vice Presidents heading the Ship Power, Power Plants, Services businesses and Wärtsilä Industrial Operations, the Chief Financial Officer, the Group Vice President, Legal Affairs & Human Resources and as of 1 March 2008 the Group Vice President, Corporate Communications. Board of Management members are appointed by the company's Board of Directors, which also approves their remuneration and other terms of employment.

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

The Group Vice Presidents, heading the businesses are each responsible for the sales volumes and profitability of their respective global businesses, employing the services of the Group's worldwide subsidiaries. Information on the members of the Board of Management, their areas of responsibility and holdings are given on pages 40 and 41.

■ The Board of Management in 2008

In 2008 the Board of Management met 14 times. The principal issues addressed by the Board of Management were related to market development, company growth and profitability, strong personnel growth, business strategy as well as issues relating to development of competitiveness. The further development of markets, volumes and capacity as well as key supplier relationships in a highly volatile global economic environment were also vital concerns addressed by the Board of Management. Other important matters considered by the Board of Management included the quantitative and qualitative development of the company's personnel and management resources worldwide as well as developing internal global processes and working practices.

■ The Corporate Management

The company's Corporate Management includes, in addition to the members of the Board of Management, the directors in charge of corporate functions. Information on the members of Corporate Management and their areas of responsibility is given on page 41.

■ Business management teams

Each business head is supported by a Business Management Team to consider issues, including the business's strategy and business operations. Information on the members of the Business Management Team is given on page 41.

■ Managing Directors of the subsidiaries

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

■ Insider management

Wärtsilä applies the legal provisions applying to the management of insiders, as well as the Guidelines for Insiders approved by NASDAQ OMX Helsinki Exchange for public listed companies, and the stipulations and guidelines of the Finnish Financial Supervision Authority.

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

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

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

The company's insider register is maintained by the parent company's legal affairs department, which is responsible for keeping the information updated. Information on the interests and holdings of the company's permanent insiders and related

parties is available from the SIRE system of the Finnish Central Securities Depository Ltd. The same information is also posted on Wärtsilä's website.

■ The internal audit

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

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

■ The external audit

The company has one auditor which shall be an auditing firm authorised by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting to audit the accounts for the ongoing financial year and its duties cease at the close of the subsequent Annual General Meeting. The auditor is responsible for auditing the consolidated and parent company's financial statements and accounting records, and the administration of the parent company.

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

■ Auditor in 2008

In 2008 the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditor. Auditing fees paid to all the auditors of the Group companies amounted to EUR 1.9 million in 2008. Consultancy fees unrelated to auditing duties paid to the auditors totalled EUR 2.7 million. These latter fees concerned acquisitions and consultation on taxation matters.

■ Communications

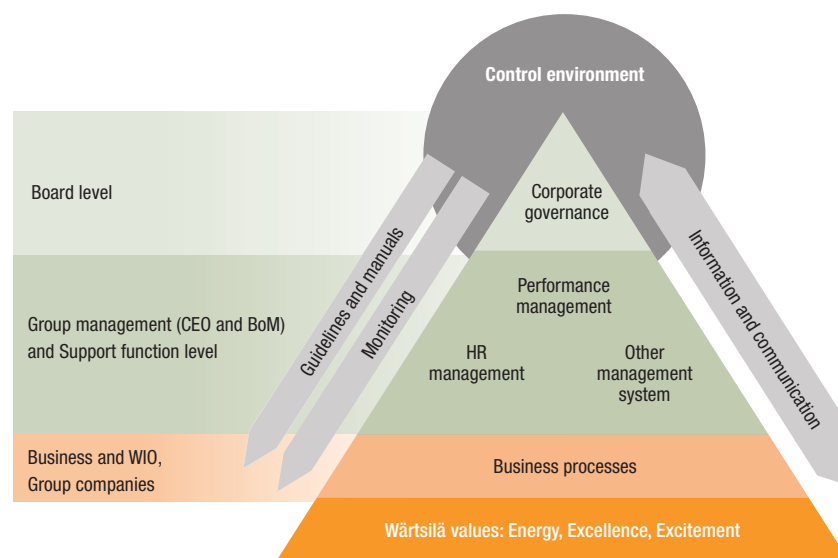
The principal information on Wärtsilä's administration and management is published on the company's website. All stock exchange releases and press releases, as well as significant presentation materials used by senior executives, are likewise published on the company's website as soon as they are made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

The main features of the internal control and risk management systems pertaining to the financial reporting system

■ Objectives for internal control

Wärtsilä has defined its objectives for internal control based on the international COSO framework. According to Wärtsilä's definition, internal control is a process taken part by Wärtsilä's Board of Directors, management, the Boards of Directors of Group companies and other personnel, designed to provide reasonable assurance regarding the achievement of objectives.

Main components of Wärtsilä's internal control



Internal control covers all the policies, processes, procedures and organisational structures in Wärtsilä that help management and ultimately the Board to ensure that Wärtsilä is achieving its objectives, that the business conduct is ethical and in compliance with all applicable laws and regulations, and that the company's assets, including its brand, are safeguarded and that financial reporting is correct. Internal control is not a separate process or set of activities, but it is embedded in the operations of Wärtsilä. The system of internal control operates at all levels of Wärtsilä. Wärtsilä maintains and develops its internal control system with the ultimate aim of improving its business performance, and at the same time to comply with laws and regulations in countries where it operates.

■ Values and control environment

The foundation of Wärtsilä's internal control system is its values, Energy, Excellence and Excitement. Wärtsilä's values are reflected in its day-to-day relations with its suppliers, customers and investors and also in Wärtsilä's internal guidelines, policies, manuals, processes and practices.

The control environment sets the tone of internal control in Wärtsilä, influencing the control awareness of its people. It provides discipline and structure for all the other components of internal control. The elements of Wärtsilä's control environment include the corporate culture; the integrity, ethical values and competence of Wärtsilä's personnel as well as the attention and direction provided to the personnel by the Board of Directors of Wärtsilä.

Wärtsilä's values and control environment provide Wärtsilä's Board of Directors and management the basis for the reasonable assurance regarding Wärtsilä achieving the objectives for internal control. The President & CEO and the Board of Management define Wärtsilä's values and ethical principles (reflected in the Code of Conduct) and set the example for the corporate culture, which create the basis for the control environment. The same parties, together with Ship Power, Power Plants and Services (hereafter Business) and Wärtsilä Industrial operations (hereafter WIO) management, are responsible for communicating Wärtsilä's values to the organisation.

■ Performance management

Planning and target setting, an integral part of performance management in Wärtsilä, are a regular management activity and not part of Wärtsilä's internal control system. The estab-

lishment of objectives, however, is an important prerequisite for internal control. Through the performance management process, financial and non-financial targets are set for Wärtsilä annually on the Group level. Group level targets are then translated into targets for Businesses and WIO, Group Companies, and eventually individuals.

The achievement of the annual targets is followed up through monthly management reporting. The performance of the Businesses and WIO and achievement of the annual targets are reviewed on a monthly basis in the respective management team meetings. The performance and the achievement of the targets of the Group and of the different Businesses and WIO are reviewed on a monthly basis by the Board of Management. The respective Management Teams and the Board of Management also address the reliability of Wärtsilä's financial reporting.

Financial reporting in Wärtsilä is carried out in a harmonised way in all major Group Companies, using single instance ERP system and a common chart of accounts. The international financial reporting standards (IFRS) are applied in the whole Group. Wärtsilä's finance and control process is essential for the functioning of internal control. Adequate controls in the financial management and accounting processes are needed to ensure the reliability of financial reporting.

The Board of Directors regularly assesses the adequacy and effectiveness of Wärtsilä's internal controls and risk management. It is also responsible for ensuring that internal control over accounting and financial administration is arranged appropriately. The Audit Committee of the Board of Directors of Wärtsilä Corporation is responsible for overseeing the financial reporting process. The Group Finance & Control function is responsible for notifying relevant levels of management of deviations from plans, for analysing the underlying reasons, and for suggesting corrective actions. The Group Finance and Control supports the Businesses and WIO in decision-making and analysis to ensure attaining financial targets. It is also responsible for maintaining and developing the company's performance management processes so that the management at different levels of the organisation is able to receive timely, reliable and adequate information regarding the achievement of the organisation's objectives, and also for developing the financial reporting processes and respective controls.

■ HR management

Human resource management practices and processes have a key role in Wärtsilä's system of internal control. Human resource management mechanisms are the primary way through which to influence the personnel's control attitudes, for example towards the controls designed to uphold reliable financial reporting, and control awareness, i.e. knowledge about all the controls in place in Wärtsilä.

Wärtsilä's key human resource management processes with respect to internal control are compensation and benefits, HR development, recruitment and resourcing management and individual performance management as well as processes for collecting feedback from the employees. These processes for their part help ensure the effectiveness of internal control in Wärtsilä. The HR function is responsible for maintaining and developing Wärtsilä's HR processes to enable effective internal control also on the individual level.

■ Other management systems

The Board of Management is responsible for developing and implementing Wärtsilä's management system, for continuously improving its performance and ensuring that it operates effectively. The Wärtsilä management system covers all global processes and management procedures in Wärtsilä related to fulfilling customer requirements. The proper functioning of the aspects of the management system highlighted below ensure for their part attaining Wärtsilä's internal control objectives.

Quality

The quality of Wärtsilä's solutions, and thus quality management, is a top priority in Wärtsilä. Compliance with Wärtsilä's Quality Management System ISO 9001:2000 is compulsory throughout the Group and compliance with the system is rigorously monitored.

Sustainability

Wärtsilä is strongly committed to sustainability. Wärtsilä's vision, mission and values together with a solid financial performance form the basis for sustainable development in Wärtsilä. Acting in compliance with all applicable laws and regulations in all countries in which it operates, also regarding financial reporting, is a central part in Wärtsilä's sustainability performance.

Risk management

Internal control in Wärtsilä is designed to support the company in achieving its targets. The risks related to the achievement of the targets need to be identified and evaluated in order to be able to manage them. Thus, identification and assessment of risks is a prerequisite for internal control in Wärtsilä. Wärtsilä's internal control mechanisms and procedures provide management assurance that the risk management actions are carried out as planned.

Wärtsilä has defined and implemented entity level and process level control activities as well as information systems controls. Control activities at different levels are needed to directly mitigate risks at the respective levels. Wärtsilä's risk management processes consist of a Group-wide risk assessment and management processes as well as project-specific risk assessments and project risk management. The Group-wide risk assessment process results in the creation of action plans for the identified and prioritised risks.

Each Business and WIO reports its main risks to the Board of Management of Wärtsilä which also follows-up the execution of the defined risk management action plans on a regular basis. The Board of Directors of Wärtsilä Corporation is responsible for defining the Group's overall level of risk tolerance and for ensuring that Wärtsilä has adequate tools and resources for managing risks. The President & CEO, with the assistance of the Board of Management, is responsible for organising and ensuring risk management in all Wärtsilä's operations. Business and WIO management is responsible for defining action plans for managing the most important risks.

Wärtsilä's most important strategic, operative and financial risks can be found on page 42.

Information Management

Information management plays a key role in Wärtsilä's internal control system. Information systems are critical for effective internal control as many of the control activities are programmed controls.

■ Business processes

The controls embedded in Wärtsilä's business processes have a key role in ensuring effective internal control in Wärtsilä. Controls in the business processes help ensure the achievement of all the objectives of internal control in Wärtsilä, especially those

related to the efficiency of operations and safeguarding Wärtsilä's profitability and reputation. Business and WIO management is responsible for ensuring that in their area of responsibility the defined Group level processes and controls are implemented and complied with. Where no Group level processes and controls exist, Business and WIO management is responsible for ensuring that efficient Business and WIO level processes with adequate controls have been described and implemented.

■ Guidelines and manuals

The components of Wärtsilä's internal control system, for example corporate governance, management system, the performance management process as well as the business and other processes, are described in various guidelines and manuals. The key Group level policies and guidelines are collected in Wärtsilä's Corporate Manual. Wärtsilä's Group level Accounting Manual contains instructions and guidance on accounting and financial reporting to be applied in all Wärtsilä Group companies. The manual supports the achievement of the objectives regarding the reliability of financial reporting in Wärtsilä. The Board of Management of Wärtsilä Corporation approves Wärtsilä's Group level policies and any changes to them.

In addition to the Group level guidelines and manuals, the Businesses and WIO have issued related guidelines and instructions for their own, specific purposes. The Business and WIO level guidelines and manuals are aligned with and do not contradict the Group level guidelines and manuals.

■ Information and communication

An effective internal control system needs sufficient, timely and reliable information to enable the management to follow up the achievement of the company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities. Informal ways for employees to give feedback to management and to communicate suspected misconducts (for example directly to the Internal Audit function) are used on an ongoing basis. All external communication is carried out in accordance with the Group Communications Policy.

■ Monitoring

Monitoring is a process that assesses the quality of Wärtsilä's system of internal control and its performance over time.

Monitoring in Wärtsilä is performed both on an ongoing basis, and through separate evaluations including internal, external and quality audits. The Business and WIO management is responsible for ensuring that relevant laws and regulations are complied in their respective responsibility areas. The management in Wärtsilä in turn performs monitoring as part of the regular supervisory activities. The Audit Committee of the Board of Directors assesses and assures the adequacy and effectiveness of Wärtsilä's internal controls and risk management. The Internal Audit function assists the Audit Committee in assessing and assuring the adequacy and effectiveness of Wärtsilä's internal controls and risk management by performing regular audits in Group legal entities and support functions according to its Annual plan. Wärtsilä's external auditor and other assurance providers such as quality auditors conduct evaluations of Wärtsilä's internal controls. The Group Finance & Control function monitors that the financial reporting processes and controls are being followed. It also monitors the correctness of external and internal financial reporting. The External Auditors verify the correctness of external annual financial reports.

Salary and remuneration report 2008

■ Remuneration of the Board of Directors

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

The Annual General Meeting approved the following fees to the members of the Board of Directors for 2008:

- to the ordinary members EUR 55,000/year
- to the deputy chairman EUR 82,500/year
- to the chairman EUR 110,000/year
- In addition, each member will be paid EUR 400/meeting attended, the chairman's meeting fee being double this amount. Roughly 40% of the annual fee is paid in Wärtsilä shares. The fee for attendance at meetings is paid in money.

The six members of Wärtsilä's Board of Directors, none of whom are employees of the company, were paid altogether

442,180 euro for the financial period that ended 31 December 2008. The Board's members are not covered by the company's stock option scheme or bonus scheme.

■ Remuneration of the President and CEO and the Board of Management

The remuneration paid to the President and CEO and other members of the Board of Management, and the principles underlying it, are determined by the Board of Directors. The remuneration paid to the President and CEO and the other members of the Board of Management consists of a monthly salary and a bonus. The Board of Directors determines the terms for the bonus payment. More information about the salaries and bonuses can be found in the Financial review on page 125. The bonus payments for the President and CEO and the Board of Management are paid according to the achievement of the company's profit targets. Monthly updated information on shares held by the President and CEO and the other members of the Board of Management, can be found on the website at www.wartsila.com.

The President and CEO is eligible to take retirement on reaching the age of sixty and his retirement pension is 60% of his statutory (TyEL) earnings. Remuneration paid to the President and CEO if dismissed by the company, corresponds to 24 month's salary plus six months' period of notice salary. The retirement age of some of the members of the Board of Management is sixty years.

■ Management incentive schemes

The Board of Directors determines the incentive schemes for the President and CEO and other members of the Board of Management, and the principles underlying them. The Board of Directors also decides on other possible long-term incentive schemes for senior management, unless they are by law determined by the Annual General Meeting. The Board of Management decides on bonus schemes for other directors and managers.

The Group operates a bonus scheme, which is implemented globally in all businesses. The bonus is based on the Group's profitability and agreed personal targets. Approximately 1,400 directors and managers are covered by this bonus scheme.

The Board of Directors has decided on a long-term bonus scheme for senior management tied to the stock development of the company's share. The bonus scheme applies to approximately 50 directors. More information about the bonus scheme can be found in the notes to the Consolidated Financial Statements on page 114.

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

Fees paid in Wärtsilä shares in 2008

Board of Directors	No. of shares
Chairman Antti Lagerroos	940
Deputy Chairman Matti Vuoria	705
Maarit Aarni-Sirviö	470
Kaj-Gustaf Bergh	470
Kari Kauniskangas	470
Bertel Langenskiöld	470

Board of Directors share ownership in Wärtsilä 31 December 2008

Board of Directors	Share
Antti Lagerroos	15 299
Change in 2008	+940
Matti Vuoria	2 062
Change in 2008	+705
Maarit Aarni-Sirviö	1 174
Change in 2008	+470
Kaj-Gustaf Bergh	470
Change in 2008	+470
Kari Kauniskangas	1,470
Change in 2008	+1 470
Bertel Langenskiöld	4 995
Change in 2008	+470

Board of Management share ownership in Wärtsilä 31 December 2008

Board of Management	Share
Ole Johansson	24 533
Change in 2008	+283
Raimo Lind	3 383
Change in 2008	+543
Tage Blomberg	2 250
Change in 2008	+225
Jaakko Eskola	5
Change in 2008	-
Lars Hellberg	0
Change in 2008	-
Kari Hietanen	72
Change in 2008	-
Atte Palomäki	300
Change in 2008	+300
Christoph Vitzthum	466
Change in 2008	+16



Antti Lagerroos



Matti Vuoria



Maarit Aarni-Sirviö



Kaj-Gustaf Bergh



Kari Kauniskangas



Bertel Langenskiöld

Board of Directors

Mr Antti Lagerroos

Independent of the company and significant shareholders. Chairman of the Board of Wärtsilä Corporation. Born 1945, LL.Lic. Member of the Board of Wärtsilä Corporation since 2002.

Primary working experience: *University of Turku*, Lecturer in Process, Criminal and Public law 1971–78; *Vaasa School of Economics*, acting Professor of Fiscal Law 1973–79; *Hollming Oy*, President of Legal Affairs and Finance 1979–81; *Salora Oy*, Chairman & CEO 1981–84; *Salora-Luxor Division*, President 1984–86; *Nokia Corporation*, Member of the Operating Board 1984–86; *Nokia Corporation*, Member of Board of Directors 1986–90; *Nokia Mobile Phones*, Executive President 1989–90; *Finnlines Plc*, President & CEO and Member of the Board 1990–2007.

Other positions of trust: *Cargotec Corporation*, Member of the Board; *Ilmarinen Mutual Pension Insurance Company*, Member of the Supervisory Board.

Mr Matti Vuoria

Dependent on the company, independent of significant shareholders. Deputy Chairman of the Board of Wärtsilä Corporation. Born 1951, BA, Master of Laws. President & CEO of Varma Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 2005.

Primary working experience: *Ministry of Trade and Industry*, Secretary General 1992–98; *Fortum Corporation*, full-time Chairman of the Board of Directors 1998–2003.

Other positions of trust: *Sampo plc*, Deputy Chairman of the Board; *Danisco A/S* and *Stora Enso Oy*, Member of the Boards; *The Federation of Financial Services*, Member of the Board and the *Finnish-Russian Chamber of Commerce*, Chairman of the Board.

Ms Maarit Aarni-Sirviö

Independent of the company and significant shareholders. Born 1953, MSc (Tech.), MBA. President & CEO of Mint of Finland Ltd. Member of the Board of Wärtsilä Corporation since 2007.

Primary working experience: *Borealis Group* 1994–2008, several senior leadership positions, latest Vice President, BU Phenol, and in *Neste Oy* 1977–94.

Other positions of trust: : *Oy Nordic Moneta Ab* and *Det Norske Myntverket*, Chairman of the Boards; *Rautaruukki Oy* and *Ponsse Oy*, Member of the Boards.

Mr Kaj-Gustaf Bergh

Independent of the company, dependent on significant shareholder. Born 1955. B.Sc., LL.M. Managing Director of Föreningen Konstsamfundet r.f. Member of the Board of Wärtsilä Corporation since 2008.

Primary working experience: *Ky von Konow & Co*, Administrative manager, 1982–83; *Ane Gyllenberg Ab*, Administrative manager, 1984–85; *Oy Bensow Ab*, Director, Executive vice president, 1985–86; *Ane Gyllenberg Ab*, Chief executive officer, 1986–98; *SEB Asset Management*, Director, 1998–2000; *Skandinaviska Enskilda Banken*, Member of management, 2000–9/2001; *Föreningen Konstsamfundet r.f.*, Chief executive officer, 5/2006–.

Other positions of trust: Chairman of Boards: *Aktia Bank plc*; *Finaref Group Ab*; *Fiskars Corporation*; *Ab Forum Capita Oy* and *KSF Media Holding Ab*. Member of Boards: *Julius Tallberg Oy Ab*; *Ramirent Group* and *Stockmann Oy Ab*.

Mr Kari Kauniskangas

Independent of the company, dependent on significant shareholder. Born 1962. MSc (Econ.). President & CEO of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 2008.

Primary working experience: Several different positions within *Amer Sports Corporation* since 1984; *Amer Sports Europe GmbH*, Germany, Managing Director, 1999–2004; Director, sales & distribution, 2004–07; Manager for the Winter & outdoor -business unit, 2007.

Mr Bertel Langenskiöld

Independent of the company and significant shareholders. Born 1950, MSc (Eng.). President of Metso Paper Inc. Member of the Board of Wärtsilä Corporation since 2002.

Primary working experience: *Tampella Power Kvaerner Pulping*, Power Division, President 1994–2000; *Fiskars Corporation*, President 2001–03; *Metso Minerals, Inc.*, President 2003–06; *Metso Paper, Inc.*, Fiber Business Line, President 8/2006–3/2007.

Other positions of trust: *Luvata Group*, Member of the Board.

Board of Management



Ole Johansson



Raimo Lind



Tage Blomberg



Jaakko Eskola



Lars Hellberg



Kari Hietanen

Mr Ole Johansson

President & CEO since 2000. Born 1951, BSc (Econ.). Employed by the company in 1975–79 and rejoined in 1981.

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

Positions of trust: *Technology Industries of Finland*, Chairman of the Board; *Outokumpu Oyj*, Chairman of the Board; *Varma Mutual Pension Insurance Company*, Deputy Chairman of the Board; *Confederation of Finnish Industries EK*, Deputy Chairman of the Board; *Finnish-American Chamber of Commerce*, Chairman; *Finnish Business and Policy Forum EVA*, Member of the Supervisory Board.

Mr Raimo Lind

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

Primary working experience: *Wärtsilä Group*, positions within control and finance and in development and internationalisation 1976–80; *Wärtsilä Diesel Group*, Vice President & Controller 1980–84; *Wärtsilä Singapore*, Managing Director & Area Director 1984–88; *Wärtsilä Service Division*, Deputy Vice President 1988–89; *Scantrailer Ajoneuvoteollisuus Oy*, President 1990–92; *Tamrock Oy*, CFO 1992–93; *Tamrock Service Business*, Vice President 1994–96; *Tamrock Coal Business*, Vice President 1996–97.

Positions of trust: *Sato Oyj*, Deputy Chairman of the Board.

Mr Tage Blomberg

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

Primary working experience: *Wärtsilä Oy*, Research Engineer 1975–82; *Wärtsilä Power Inc.*, Sales Manager 1982–84; *Wärtsilä Diesel Oy*, Project Manager 1984–89; *Wärtsilä Diesel Oy*, Vice President 1989–96; *Wärtsilä Diesel Group, Marine*, Senior Vice President 1996–97; *Wärtsilä NSD Corporation, Marine*, Senior Vice President 1997–99.

Mr Jaakko Eskola

Group Vice President, Ship Power since 2006. Born 1958, MSc (Eng.). Joined the company in 1998.

Primary working experience: *VTT Technical Research Centre of Finland*, Researcher 1983–84; *Industrialisation Fund of Finland*, Corporate Analyst 1984–86; *National Banking Group*, various managerial positions in international project finance 1986–97; *PCA Corporate Finance*, Executive Director 1997–98; *Wärtsilä Development & Financial Services Oy*, President 1998–2005; *Wärtsilä Corporation*, Power Plants, Vice President, Sales & Marketing 2005–06.

Positions of trust: *Finpro ry*, Member of the Supervisory Board.

Mr Lars Hellberg

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

Primary working experience: *Volvo Cars AB*, Research Engine Engineer and Project Manager in vehicle development programmes; Vice President, Industrial Operations; Vice President of Global Business & Volume Optimisation; General Manager in *Volvo Car Operations BV* 1979–2001; *Saab Automotive AB*, Executive Director for the Customer Satisfaction and Quality division and a Member of the Board of Management 2001–04.

Mr Kari Hietanen

Group Vice President, Legal Affairs and HR, Company Secretary since 2002. Born 1963, LL.M. Joined the company in 1989.

Primary working experience: *Metra Corporation* and *Wärtsilä Diesel Group*, Legal Counsel 1989–94; *Wärtsilä Diesel Group*, General Counsel 1994–99; *Wärtsilä Power Divisions*, Group General Counsel 2000–01; *Wärtsilä Corporation*, Vice President, Legal Affairs and Group General Counsel 2002–.



Atte Palomäki



Christoph Vitzthum

Atte Palomäki

Group Vice President, Corporate Communications since 2008. Born 1965, MSc (Pol.). Joined the company in 2008.

Primary working experience: *MTV3*, News anchor 1993–95; News producer 1995–2000; Senior economic correspondent 2000–02; *Kauppalehti*, Senior business correspondent 2002–05; *Nordea Bank AB* (publ.), Chief communication officer, Finland 2005–06; Group chief press officer 2007–08.

Positions of trust: *Talentum Oyj*, Member of the Board.

Mr Christoph Vitzthum

Group Vice President, Power Plants since 2006. Born 1969, MSc (Econ.). Joined the company in 1995.

Primary working experience: *Metra Finance*, Foreign Exchange Dealer 1995–97; *Wärtsilä NSD Corporation*, Power Plants, Business Controller 1997–99; *Wärtsilä Corporation*, *Ship Power*, Vice President, Finance & Control 1999–2002; *Wärtsilä Propulsion*, President 2002–06.

Corporate Management

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

Mr Yngve Bårgård

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

Ms Päivi Castrén

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

Ms Maj-Len Ek

Vice President, Group Control. Born 1948, BSc (Econ.).

Mr Per Hansson

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

Mr Heikki Horstia

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

Mr Johan Jägerroos

Vice President, Corporate Internal Audit. Born 1965, MSc (Eng.).

Ms Eeva Kainulainen

Vice President, Global Communications. Born 1948, MSc (Soc.Sc.).

Mr Esa Kivineva

Chief Information Officer (CIO). Born 1961, PhD (Eng.).

Mr Mikael Simelius

Vice President, Branding. Born 1964, MSc (Econ.).

Management Teams

■ Ship Power

Mr Jaakko Eskola

Group Vice President, Ship Power. Born 1958, MSc (Eng.).

Mr Lars Anderson

Vice President, Merchant. Born 1968, BSc (Mech. Eng.).

Mr Fred van Beers

Vice President, Special Vessels. Born 1962, Bachelor's degree, Merchant Engineer & Bachelor degree BtB Marketing.

Mr Arne Birkeland

Vice President, Ship Design. Born 1966, MSc (Business).

Mr Carl-Henrik Björk

Vice President, Cruise & Ferry. Born 1947, Marine Engineer.

Mr Aaron Bresnahan

Vice President, Navy. Born 1969, MBA & MA (Strategic Studies).

Mr Juhani Hupli

Vice President, Technology. Born 1966, MSc (Mech. Eng.).

Mr Timo Koponen

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

Mr Magnus Miemois

Vice President, Offshore. Born 1970, MSc (Eng.).

Mr Henrik Wilhelms

Vice President, Sales. Born 1965, BSc (Mech. Eng.).

■ Services

Mr Tage Blomberg

Group Vice President, Services. Born 1949, BSc (Eng.).

Mr Pierpaolo Barbone

Vice President, Field Service. Born 1957, MSc (Min. Eng.).

Mr Stefan Fant

Vice President, Project & Contract Management.

Born 1955, BSc (Mech.).

Mr Roger Holm

Vice President, Business Development. Born 1972, MSc (Econ.).

Mr Christer Kantola

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

Mr Donal Lynch

Vice President, Parts. Born 1956, Business Management Diploma.

Mr Stefan Nysjö

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

Mr Mikko Ruohisto

Director, Human Resources. Born 1954, MSc. (Mech. Eng.).

Ms Eva-Stina Rönnholm

Vice President, Finance & Control. Born 1967, MSc (Econ.).

Mr Rolf Vestergren

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

■ Power Plants

Mr Christoph Vitzthum

Group Vice President, Power Plants. Born 1969, MSc (Econ.).

Mr Markus Pietikäinen

Vice President, Development & Financial Services. Born 1975, MSc (Econ.).

Mr Tore Björkman

Vice President, Sales, Europe and Africa. Born 1957, BSc (Mech. Eng.).

Mr Frank Donnelly

Vice President, Sales, America. Born 1953, BSc (Math.).

Mr Osmo Härkönen

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

Mr Caj Malmsten

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

Mr Vesa Riihimäki

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

Mr Rakesh Sarin

Vice President, Sales, Middle East and Asia. Born 1955, BSc (Chemical Eng.).

■ Industrial Operations

Mr Lars Hellberg

Group Vice President, Industrial Operations. Born 1959, BSc (Eng.).

Mr Stefan Damlin

Vice President, Business & Finance Centre. Born 1968, MSc (Econ.).

Mr Klaus Heim

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

Mr Juha Kytölä

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

Mr Erik Pettersson

Vice President, Delivery Development Centre. Born 1953, BSc (Eng.).

Mr Sergio Razeto

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

Mr Jari Salo

Vice President, Delivery Centre Propulsion. Born 1963, MSc (Eng.).

Mr Martin Wernli

Vice President, Delivery Centre 2-stroke. President of Wärtsilä Switzerland Ltd. Born 1960, JD Attorney at Law.

Risks and risk management

Risk management principles

Risk management in Wärtsilä is a continuous process of analysing and managing all the opportunities, threats and risks faced by the company to achieve its goals and to ensure the company remains a going concern. The basis for risk management is the life cycle quality of Wärtsilä's operations and products, and the continuous, systematic loss-prevention work at all the levels of the Group on the principle that "everybody is responsible". In the long term this is the only way to reduce the total risk costs.

The relevant risks for Wärtsilä have been classified in four sections; strategic, operational, hazard and financial risks. Risk is defined as the outcome of the probability and the loss exposure of the occurrence. The outcome or potential loss expectancy is highest with strategic risks, operational risks and lowest with hazard and financial risks.

The Board of Directors and the Board of Management decide and give guidelines on strategic matters. The Businesses are responsible for achieving their strategic goals set and for mitigating and covering all their risks. The risk management function is part of Group Treasury, which reports to the CFO. It reviews the business risk profile, prepares the risk management policy, cooperates in the implementation of risk mitigation work with businesses and develops global and local insurance schemes with insurance companies and brokers. The Audit Committee reviews and assesses the adequacy of risk management. The risk management policy is endorsed by the Board of Directors.

Strategic risks

The strategic risks and especially the risks involved in the daily implementation and management of achieving these strategic goals are overlapping with operational risks and thus it is very difficult to try to differentiate them from each other. Many of the strategic risks were handled in the Operational Risk Assessment in 2008.

Business Environment risks

Business cycles in the global economy and in our customer industries influence the demand for our products as well as our financial conditions and operating result. Our flexible manufacturing model based on capacity outsourcing as well as a stable business mix with a large share of sales deriving from Services brings Wärtsilä stability in a cyclical market.

In 2008 the biggest risk for Wärtsilä's future success is the turmoil experienced in the financial markets during 2008. It will inevitably slow down the global economy and might even

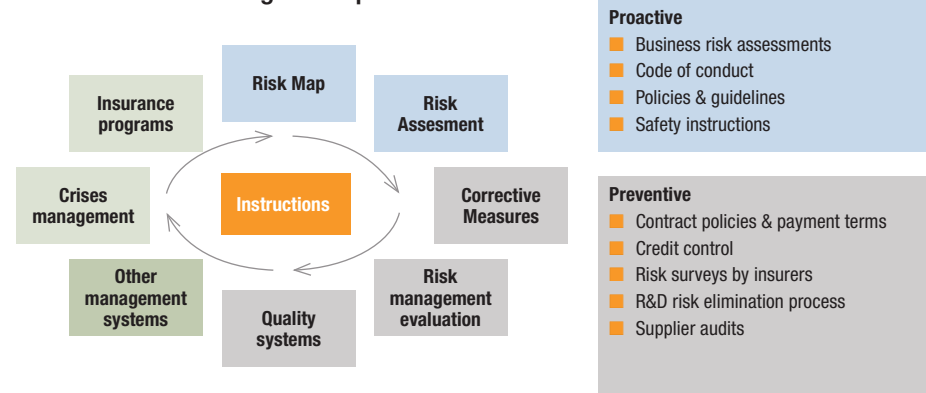
lead into a severe global recession. How deep and long it will become depends on several matters beyond Wärtsilä's control. Important economic matters that will indirectly affect Wärtsilä and its clients and suppliers include inter alia the liquidity and solvency of the financial institutions and thus not only their capability but also willingness to extend credits, the counter cyclical programs adopted by governments especially on power and infrastructure sectors, the enhanced activities of multilateral institutions like IFC etc, the availability of export credit schemes and guarantees etc. However, the record order book gives Wärtsilä some security and a good basis for 2009 activities.

Market and Customer risk

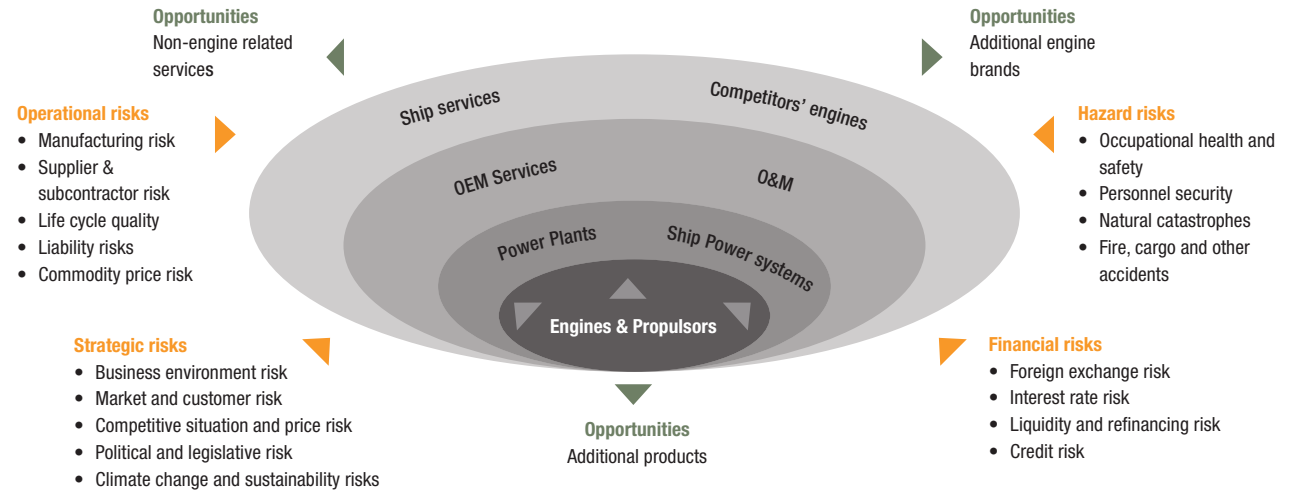
Over three-quarters of global shipbuilding now takes place in Asia. Wärtsilä has responded to this development by setting up new delivery centres in China and India and by locating the top management of Ship Power Business in Shanghai. A new joint venture company producing medium speed engines in



Risk management process



Operations, risks and opportunities



Korea started operations during 2008 and a further new joint venture producing low-speed engines will be inaugurated in China in 2009. Wärtsilä sells the products to shipyards but also markets them with the total life cycle concept to ship owners. The closer cooperation with the end customers, ship owners, has been enhanced by the acquisitions of ship design companies Vik-Sandvik, Schiffko and Conan Wu. Wärtsilä is well represented in all the major shipbuilding areas and active in all major vessel segments. That mitigates both single customer related and geography related risks. In today's economic downturn the new order intake will slow down and the weaker capitalised shipyards and ship owners might face financial difficulties and cancellations of orders might not be avoided. The most vulnerable shipping sub-segment is bulkers which accounts for 10% of the total order backlog at the end 2008. Further ahead this might lead to consolidation of market participants which in turn might open up new opportunities for strategic solution based cooperation with bigger counterparties.

Power plant sales continue to be distributed evenly around the world, which has consequently reduced risks associated with specific customer groups or countries. Wärtsilä has four types of customers: Industrial customers, IPP's, Utilities and oil&gas sector customers. The economic slowdown and availability of financing might have a more serious effect on new order intake and even on postponement of some existing orders in particular in the industrial segment but also in some IPP projects whereas projects with utilities and in the oil&gas sector are likely to be affected to a lesser extent.

Wärtsilä's Services Business has expanded both through acquisitions and organically. During recent years Wärtsilä has acquired new capabilities within propulsion, automation and boiler services, which are being cloned globally to other relevant Wärtsilä locations. The strong business volumes of Wärtsilä's customers have further boosted service sales. Wärtsilä

has over 10,000 customers and an active engine base of about 160,000 MW, which means that dependency of one customer or customer segment is very insignificant. The earlier downturns or recessions in economic cycle have not caused a dip in the Services net sales.

Competitive situation and price risk

In 2008 demand was strong in Ship Power Business until 3rd quarter 2008 and the order book rose to a record level. Thereafter the new order intake has decreased. However, the order backlog of the shipyards and Wärtsilä cover the next couple years. The potential overcapacity in case of a more prolonged recession might create more competition and price pressure in the market. Ship Power's largest competitors in main engines are MAN Diesel and Caterpillar (MAK). No significant changes took place in the competitive situation in 2008. In the Propulsion Business the competition is more fragmented and varies by product segment. The concept of selling packaged solutions rather than merely components reduces the price volatility.

In the power plant market, Wärtsilä's main competitors are the same engine manufacturers as in Ship Power and in some cases other technologies, notably gas turbines. Wärtsilä's market position improved, especially in the heavy fuel oil power plant sector. During the review period competitiveness was still affected by

component availability and pressure on component prices. The impact of currency fluctuations has so far been limited.

In the Services Business Wärtsilä has no direct competitors that offer a similar portfolio of services from a single source. Each service has therefore its own identified set of competitors. Excluding the service networks of other engine manufacturers, there are few global players in the service market; competition is mostly local.

Political and legislative risks

Wärtsilä is present in 160 locations in more than 70 countries and has delivered power plants to 160 countries. Political developments and changes in legislation can have a significant impact on Wärtsilä's business. Wärtsilä actively monitors political and legal developments in its markets, and engages in dialogue with various official bodies in projects of importance to Wärtsilä's operations. Much of this engagement takes place through interest groups and trade organisations. The company monitors legislative changes at both corporate and subsidiary levels.

Climate change and Sustainability risks

The climate change and other sustainability related risks were systematically evaluated in the operational Risk Assessment conducted in 2008. The potential business risks related to

climate change and Wärtsilä's products are in the areas of regulatory emission restrictions and change in customer attitudes in using combustion engines.

The International Maritime Organization (IMO) approved amendments to the MARPOL Annex VI regulations on ship emissions. These regulations set stricter limits on Nitrogen Oxides (NO_x) emissions of the engines as well as sulphur content of the fuel. The new requirements will be in force in various phases during years 2010–2020. Concerning NO_x emissions Wärtsilä has already introduced the solutions to comply with these requirements. Wärtsilä engines are designed for operation on any fuel sulphur content.

The WB (World Bank)/IFC (International Finance Corporation) Thermal Power Plants EHS (Environment, Health, Safety) Guidelines is at the moment undergoing a major revision and it is expected to become in force during 2009. Leading international investment banks have made an agreement with IFC to follow guidelines based on IFC's environmental and social standards and thus adopted the Equator Principles. Many other financial institutions are also using the World Bank Group Guidelines in addition to national norms in their projects. Consequently World Bank/IFC EHS Guidelines are today the minimum environmental standard in global power plant projects. EU is also currently in the process of updating the IPPC (Integrated Pollution Prevention and Control) Directive. UNECE Gothenburgh Protocol revision work is also going on and is expected to be finalised during year 2009.

An intensive interaction between various stakeholders is currently taking place. Wärtsilä is actively engaged in the dialogue between different authorities, associations, industry and our customers in order to find the optimal solution for the market needs. The risks in environmental legislation changes are related to the complexity of the overall field of different emissions, the balance between commercial available fuels and

resulting emissions, available abatement technologies, impact on overall energy efficiency and resulting financial feasibility.

Wärtsilä recently launched a new unit, Delivery Center Ecotech, for centralising Environmental technologies that are related to products outside the engines in order to quickly respond to market and customer needs by fully integrated and validated solutions.

Please find more information on sustainability risks under Hazard risk section. Please also see the Sustainability Review section.

■ Operational risks

General

The operational Risk Assessment covering all Wärtsilä's Businesses was completed in 2008.

The operative risk management was considered to be at an acceptable level. Risk teams including members from each Business have been established for mitigating these operational risks. In the context of this work Business Continuation Plans (BCP) and from bottom-up-risk reporting from separate Business Units all the way up to the Board of Directors will be developed.

Manufacturing risk

In 2008 a risk assessment was made with insurers in the two biggest delivery centres, Vaasa and Trieste. Other locations inspected included major propulsion factories in the Netherlands and Norway. Improvements in the premises security and employee safety have been implemented. Wärtsilä is using management systems for quality, environmental and occupational health and safety and other systems to improve productivity and safety.

Based on the order backlog and on the plans and investments the total production in 2009 will be increased. Continued

monitoring of the new order intake, delays and potential cancellations is required with the selling Businesses in order to ensure fast response time in the supply chain.

Supplier and subcontractor risk

The centralised Corporate Supply Management (CSM) function has been operative since 2006. Its purpose is to manage and control Wärtsilä's supplier network making sure the suppliers meet the expectations in terms of the performance. Hence the supplier performance is also continuously measured. A continuous deeper co-operation with suppliers has been initiated covering accident risks as well as sharing information on risk management issues and business continuity planning. First such supplier audits were completed during 2008 together with the insurer. These audits will be a part of the regular work for CSM and for Risk Management function. Due to the financial markets crisis a more comprehensive follow-up of suppliers' creditworthiness is also required.

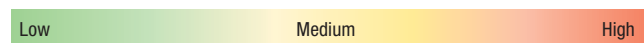
Even though the major suppliers have increased their capacity in 2008, there is still a challenge concerning the capacity ramp up and related costs in 2009 and the delivery times of suppliers and subcontractors. To meet these challenges the Corporate Supply Management function has developed its activities by creating closer collaboration and relationships with its main suppliers, by emphasising quality, cost, lead time and long-term delivery agreements and by sharing innovative solutions in order to drive down costs. In addition Wärtsilä has also increased the number of suppliers of certain critical components and its sourcing in emerging markets.

Life cycle quality of products and product liability risk

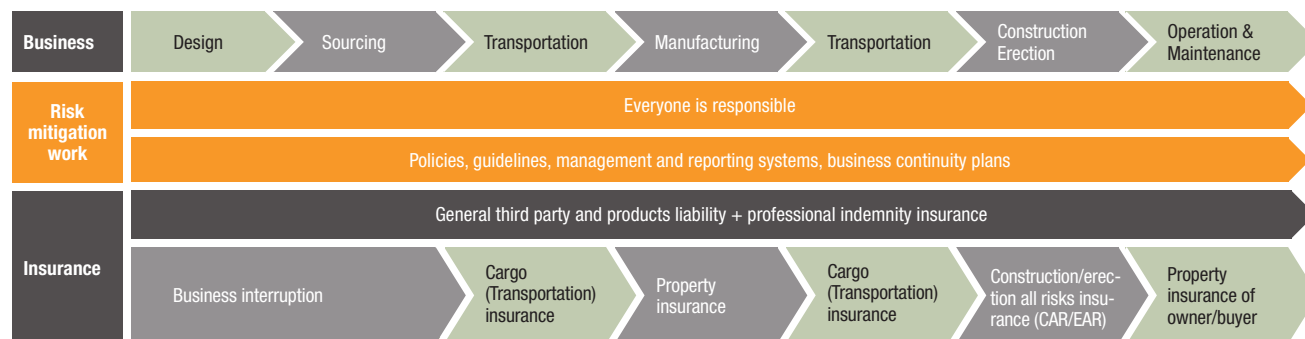
Launching new products always involves risk. Wärtsilä seeks to control this risk by designing and manufacturing products with all due care and by simulating its products through testing

Wärtsilä's risk profiles & responsibilities

Risks	Risk profile	Policy or other guideline	Responsible body
Strategic risks		Wärtsilä's strategy and business plans	Wärtsilä Board of Directors (BoD), Board of Management (BoM) and Wärtsilä's Businesses (Businesses)
Business environment risk		Wärtsilä's strategy and business plans	BoM and Businesses
Market and customer risk		Wärtsilä's strategy and business plans	BoM and Businesses
Competitive situation and price risk		Wärtsilä's strategy and business plans	BoM and Businesses
Political and legislative risk		Various guidelines and Risk management policy	Businesses, R&D, Risk Management (RM) and Legal functions
Climate change and sustainability risk		QHSE policy Code of Conduct Management systems (ISO 14001 & OHSAS 18001)	Businesses, R&D and Sustainability management function
Technology risk		Patents and industrial rights, Product guarantees	Businesses and R&D function
Operational risks		Wärtsilä's strategy and business plans	BoM and Businesses
Manufacturing risk		Production systems	Wärtsilä Industrial Operations (WIO) and Businesses
Supplier and subcontractor risk		Supplier requirements and supplier management system	Businesses and Corporate Supply Management (CSM)
Life cycle quality of products and product liability risk		Management system (ISO 9001), Safety instructions and manuals, risk management policy, R&D risk elimination instructions	WIO, R&D function, Businesses and RM and Legal functions
Contractual risks		Standard contracts	Legal function and Businesses
Commodity price risk		Production cost control	Businesses and Treasury function
Data security risk		Data security principles	Businesses and IM function
Hazard risk		Risk management policy and guidelines	Wärtsilä's Businesses and RM function
Personnel risk		Management system (OHSAS 18001), travel safety instructions, crises management guidelines and premises safety plans	Businesses, Human Resources (HR) and RM functions
Natural catastrophes		Crises management guidelines	Businesses and RM function
Fire, Cargo and other accidents		Management systems (ISO 14001 & OHSAS 18001), premises safety plan	Businesses, RM and Real Estate (RE) functions
Financial risks		Treasury policy	Businesses and Treasury function
Foreign exchange risk		Wärtsilä's strategy and business plans	Businesses and Treasury function
Interest rate risk		Wärtsilä's strategy and business plans	Businesses and Treasury function
Liquidity and refinancing risk		Wärtsilä's strategy and business plans	Businesses and Treasury function
Credit risk		Credit policy	Businesses and Treasury function



Which insurance covers our business?



Wärtsilä's product life cycle is described against the simultaneous risk mitigation work done and the respective insurance coverage for accidents.

their reliability using design methods such as FMEA. The Risk elimination tool was implemented in 2007 and is systematically applied in R&D projects to assess and eliminate potential risks during the development of a new product. The tool supports any risk management process and contributes with clear prioritisation through a Single Issue List, assigned responsibilities, follow-up and a standardised reporting structure. Inhouse validation testing is the final step to confirm first-time-right performance of a new product before it is released to the market.

Tight delivery schedules create further challenges to ensure the quality of the company's component deliveries. The company makes warranty provisions to cover any warranty costs that may arise after product delivery. Product liability insurance covers unexpected damage.

Contractual risks

Wärtsilä's non-Service sales consist of project deliveries of various sizes. The biggest deliveries concern turnkey power plants of 50 MW or bigger. However, the risks of individual projects do not reach significant level considering the total volume of business. Wärtsilä is sometimes also involved in product liability claims. The life cycle quality of products and work starting from design to the service work on the field and the usage of standard sales contracts reduce the risk for claims. There is no significant litigation under process.

Commodity price risk

Oil

The direct effect of oil price changes on production in Wärtsilä is very limited and the small oil volume consumed in R&D is hedged. The indirect effects of oil price volatility on customers are outweighed in importance by the long economic life of the investments, fuel efficient technologies and the availability of alternative fuels.

Metals

Metal prices have an indirect effect on engine component costs. This exposure is not hedged but annual agreements are in place to balance the short-term fluctuations. Furthermore some key components are sourced with long-term contracts and thus raw material price volatility is generally smoothed. The raw material prices increased until 2nd quarter 2008 but as they have subsequently come down it is likely that there will be a positive, although limited, effect on Wärtsilä's production costs in 2009. The Propulsion Business hedges its exposures to different metal prices including copper, nickel and aluminium. These risks are small from the Group's perspective.

Electricity

Electricity prices have no substantial impact on Wärtsilä's production costs.

■ Hazard risks

Occupational health and safety systems, travel safety instructions and crises management guidelines aim to protect Wärtsilä employees. Wärtsilä has appropriate insurances for its personnel.

Wärtsilä Real Estate unit maintains a register on all properties used and gives guidelines for purchase, sale, rental and security of premises and uses external advisors for environmental audits.

All Wärtsilä's major production plants are situated outside of Natural Catastrophe areas.

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

■ Financial risks

The financial risks are presented on page 127 in the notes to the financial statements, note 34. ■

Shares and shareholders

Wärtsilä Corporation's shares are listed on the NASDAQ OMX Large Cap list on the Helsinki Stock Exchange.

In March 2008 Wärtsilä's A and B-series shares were combined. Following the combination all shares now carry one vote and equal rights. The combination of the share series involved an exchange of all A shares to B shares and in addition a free share issue directed to the holders of Series A-shares so that holders of Series A-shares received one share free of charge for each nine Series A-shares. In the directed share issue 2,619,954 shares were given. Trading with the new and combined shares started on 27th of March 2008. Wärtsilä's total number of shares at the end of the review period was 98,620,565.

■ Option rights for management

The AGM on 12 March 2002 approved an option scheme for key persons in the Wärtsilä Group. The number of options was 800,000. The subscription of shares ended on 31 March 2008. All option rights of this 2002 option scheme were exercised.

■ Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 56,479 Wärtsilä Corporation shares, which represent 0.06% of the stock and of the voting rights.

■ Shareholders

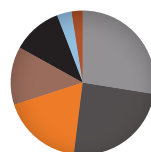
Wärtsilä has approximately 34,200 shareholders. At the end of the period approx. 46% of the capital was held by foreign shareholders. At the end of 2007 the corresponding figure was 50%.

■ Changes in ownership - flagging notifications

During the review period and in relation to the combination of the share series and the directed free share issue, Wärtsilä was informed of the following changes in ownership:

The Fiskars Group's share of Wärtsilä Corporation's votes decreased to less than 1/5 (20%). Following the transaction Fiskars Corporation holds 901,857 or 0.9% of Wärtsilä's share capital and votes, and the Fiskars wholly-owned subsidiary Avlis AB holds 15,944,444 or 16.2% of Wärtsilä's share capital and total votes. In total, Fiskars Group holds 16,846,301 or 17.1% of Wärtsilä Corporation's share capital and votes.

Ownership structure 31 December 2008



Nominee registered	27.5% (33.4)
Households	24.5% (21.1)
Outside Finland	18.0% (16.4)
Non-profit organisations	13.1% (12.6)
Public sector entities	11.2% (10.3)
Private corporations	3.4% (3.5)
Banks and insurance companies	2.3% (2.5)

Varma Mutual Pension Insurance's share of Wärtsilä Corporation's shares increased to more than 1/20 (5%) and the share of the votes decreased to less than 1/10 (10%). Following the transaction Varma holds 5,130,087 or 5.2% of Wärtsilä's share capital and total votes.

Svenska Litteratursällskapet i Finland r.f.'s share of Wärtsilä Corporation's votes decreased to less than 1/20 (5%). Following the transaction Svenska Litteratursällskapet holds 1,735,506 or 1.76% of Wärtsilä's share capital and total votes.

The above-mentioned changes came into effect when the combined and new shares were registered in the Trade Register on 26 March 2008.

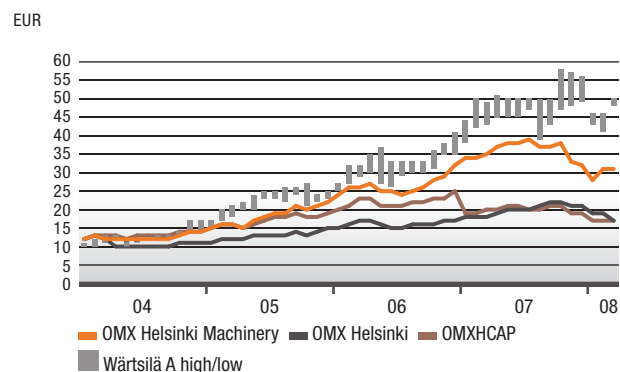
■ Authorisations granted to the Board of Directors

After the Annual General Meeting (19 March 2008), there are no current authorisations.

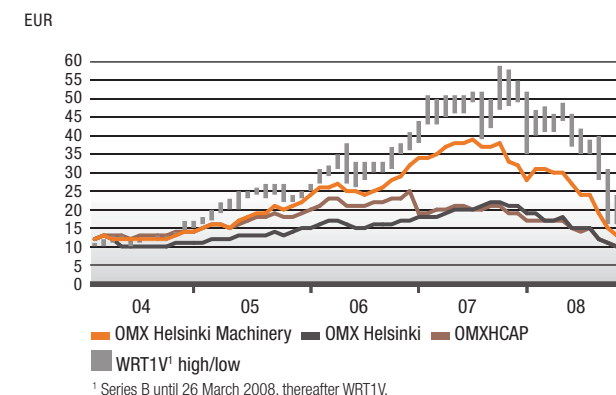
■ The Board of Directors' dividend proposal to the Annual General Meeting 2009

The Board of Directors proposes to the Annual General meeting on 11 March 2009 that a dividend of 1.50 euros per share be distributed for the financial period that ended 31 December 2008. ■

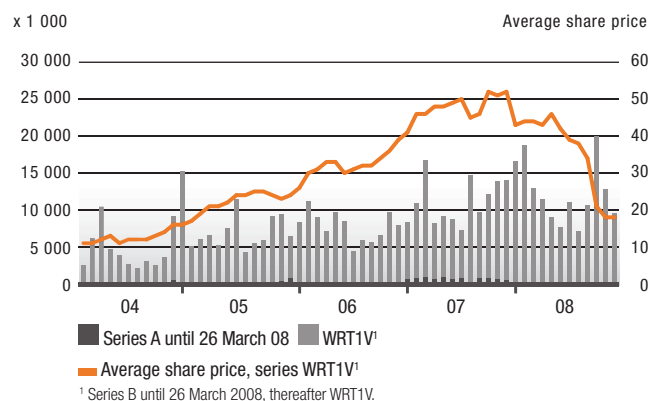
Series A quotations 2004–26.3.2008



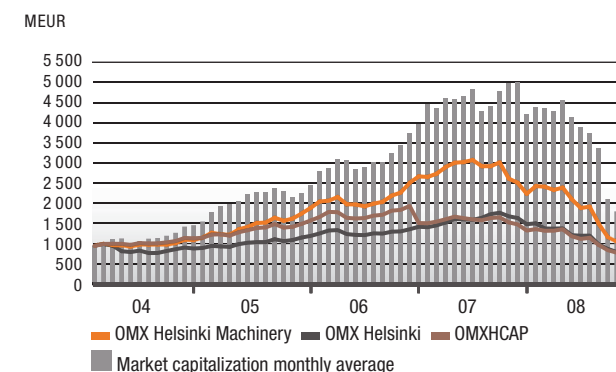
WRT1V¹ quotations 2004–2008



Traded shares/month 2004–2008



Market capitalization 2004–2008



Ownership structure on 31 December 2008

Group	Number of shareholders	%	Number of shares	%
Private corporations	1 604	4.7	3 358 291	3.4
Banks and insurance companies	92	0.3	2 150 287	2.2
Public sector entities	56	0.2	11 172 495	11.3
Non-profit organisations	800	2.3	12 871 848	13.1
Households	31 308	91.7	23 893 006	24.2
Outside Finland	295	0.9	17 738 763	18.0
Nominee registered			27 435 875	27.8
Total	34 155	100.0	98 620 565	100.0

Division of shares 31 December 2008

Number of shares	Number of shareholders	%	Number of shares	%
1–50	5 244	15.4	162 091	0.2
51–100	4 889	14.3	422 590	0.4
101–1 000	18 504	54.2	7 094 693	7.2
1 001–5 000	4 496	13.2	9 488 005	9.6
5 001–10 000	565	1.7	4 020 192	4.1
10 001–100 000	404	1.2	10 307 762	10.5
100 001–500 000	41	0.1	8 740 863	8.9
500 001–1 000 000	7	0.0	4 421 379	4.5
1 000 001–	4	0.0	26 530 779	26.9
Nominee registered			27 432 211	27.8
Total	34 155	100.0	98 620 565	100.0

Major shareholders 31 December 2008

	Owner	Shares	Shares %
1	Avlis Ab	16 846 301	17.08
2	Varma Mutual Pension Insurance Company	5 130 087	5.20
3	Ilmarinen Mutual Pension Insurance Company	2 807 309	2.85
4	Svenska Litteratursällskapet i Finland Rf	1 747 082	1.77
5	The Social Insurance Institution of Finland	967 955	0.98
6	Jenny and Antti Wihuri Foundation	631 608	0.64
7	Sigrid Jusélius Foundation	622 398	0.63
8	Brita Maria Renlund Foundation	600 500	0.61
9	The Finnish Cultural Foundation	557 401	0.57
10	State Pension Fund	530 000	0.54
11	Inez och Julius Polins Fond	511 517	0.52
12	Livränteanstalten Hereditas	427 749	0.43
13	Ella and Georg Ehrnrooth Foundation	421 465	0.43
14	The Signe and Ane Gyllenberg foundation	414 444	0.42
15	Samfundet Folkhälsan i Svenska Finland rf	408 825	0.41
16	Etera Mutual Pension Ins. Company	372 000	0.38
17	OP-Delta Equity Fund	316 914	0.32
18	Åbo Akademi Foundation	300 555	0.30
19	Svenska Folkskolans Vänner	286 218	0.29
20	Svenska Kulturfonden i Björneborg	277 505	0.28
21	Odin Finland	255 220	0.26
22	Pensionsförsäkringsaktiebolaget	250 000	0.25
23	Magnus Ehrnroot Foundation	246 222	0.25
24	William Thuring's Stiftelse	242 222	0.25
25	Kuolinpesä Rantanen Yrjö	241 333	0.24
26	Folkhälsans Forskningsstiftelse - Kansanterveyden tutkimussäätiö	240 489	0.24
27	Relander Gustaf	238 888	0.24
28	Sijoitusrahasto Aktia Capital	222 333	0.23
29	Kuntien Eläkevakuutus	221 652	0.22
30	Mutual Insurance Company Eläke-Fennia	220 000	0.22
31	Blåberg Meeri	220 000	0.22
32	Louise och Göran Ehrnrooths Stiftelse	188 815	0.19
33	Sampo Life Insurance Company Ltd	186 532	0.19
34	Ehrnrooth Paul	180 272	0.18
35	Erikoissijoitusrahasto Omx Helsinki 25	165 936	0.17
36	Fromond Elsa Margaretha Louise	155 478	0.16
37	Von Fieandt Johan	154 246	0.16
38	Emil Aaltosen Säätiö	146 000	0.15
39	Tallberg Carl Johan	143 341	0.15
40	Neste Oil Eläkesäätiö	142 926	0.14
41	Riihimäen Konepajakoulun Säätiö	141 293	0.14
42	Stockmann Marita	135 613	0.14
43	Folketrygdfondet	128 500	0.13
44	Sijoitusrahasto Nordea Fennia	128 000	0.13
45	Ehrnrooth Anna Sophia	126 575	0.13
46	Gyllenberg Finlandia Sijoitusrahasto	123 191	0.12
47	Bergsr. Dr H.C. Marcus Wallenbergs stiftelse för företagse	121 800	0.12
48	Petter och Margit Forströms Stiftelse	115 000	0.12
49	Ehrnrooth Jacob	113 333	0.11
50	Blomberg Anne-Sofie	108 352	0.11
	Total	39 481 395	40.03

The Wärtsilä shares on the Helsinki Stock Exchange

		2008	2007	2006	2005	2004
Trading volume	MEUR					
Series A ¹		13.5	665.7	55.6	72.2	41.6
WRT1V ²		5 220.5	6 018.1	2 963.2	1 796.6	860.0
Total		5 234.0	6 683.8	3 018.8	1 868.8	901.6
Number of traded	x 1 000					
Series A ¹		289	13 412	1 716	3 160	2 180
WRT1V ²		147 205	125 257	92 322	79 635	45 527
Total		147 495	138 669	94 038	82 795	47 707
Stock turnover	%					
Series A ¹		4.5	56.8	7.2	13.4	9.2
WRT1V ²		149.3	173.0	128.2	112.9	66.0
Total		149.3	144.4	98.4	88.0	51.5
Average share price	EUR					
Series A ¹		46.79	49.63	32.52	22.73	13.03
WRT1V ²		35.41	48.04	32.07	22.46	13.60
Trading low/high	EUR					
Series A ¹	low	33.05	38.05	24.60	15.31	10.17
	high	53.00	58.00	40.99	26.70	17.32
WRT1V ²	low	15.50	38.44	24.80	15.68	9.97
	high	52.40	58.89	41.20	27.09	17.48
Share price at the year-end	EUR					
Series A ¹		-	53.09	40.75	24.84	15.24
WRT1V ²		21.01	52.09	40.81	25.00	15.68
Year-end market capitalisation	MEUR	2 072	5 023	3 898	2 349	1 441

¹ Series A until 26 March 2008.

² Series B until 26 March 2008, thereafter WRT1V.

Key figures for Wärtsilä shares

		2008	2007	2006	2005	IFRS 2004	FAS 2004
Earnings per share (EPS)	EUR	3.88 ¹	2.74	3.72	1.80	1.42	1.75
Book value of equity per share	EUR	12.01	13.70	12.74	12.25	9.65	9.22
Dividend per share	EUR	1.50 ²	4.25	1.75	3.00	0.90	0.90
Dividend per earnings	%	38.7 ²	155.1	47.0	166.7	63.4	51.4
Dividend yield	%						
Series A		-	8.01	4.29	12.08	5.91	5.91
WRT1V ³		7.14 ²	8.16	4.29	12.00	5.74	5.74
Price per earnings (P/E)							
Series A		-	19.4	11.0	13.8	10.7	8.7
WRT1V ³		5.41	19.0	11.0	13.9	11.0	9.0
Price to book-value (P/BV)							
Series A		-	3.9	3.2	2.0	1.6	1.7
WRT1V ³		1.7	3.8	3.2	2.0	1.6	1.7
Adjusted number of shares	x 1 000						
end of financial year		98 621	95 970	95 554	94 107	91 341	91 341
on average		97 994	95 751	94 429	93 010	92 551	92 551

¹ 3.96 euros before the effect of the combination of Wärtsilä's share series.

² Proposal of the Board of Directors.

³ Series B until 26 March 2008, thereafter WRT1V.

Wärtsilä on the capital markets 2008

Wärtsilä's shares are listed on the NASDAQ OMX Large Cap list on the Helsinki Stock Exchange under the trading code WRT1V. All shares carry equal voting and dividend rights.

■ Wärtsilä's Investor Relations policy

The ultimate objective of our Investor Relations is to produce accurate, sufficient and up-to-date information about the development of our business operations, strategy, markets and financial position to ensure that the capital markets have relevant information about the company and its shares in order to determine the fair value of our shares. To reach this objective we annually publish three interim reports, a financial statement bulletin, an annual report and stock exchange releases. Furthermore, our management conducts regular discussions with analysts and investors both in Finland and abroad. The web pages serve as an archive for all current and historical data about factors affecting the value of our shares.

■ Prospects

Information on Wärtsilä's prospects and result forecast is published in the Financial Statements Bulletin for the financial year (and repeated also in the Annual Report) and in the interim reports. The prospects are approved by the Board of Directors.

Wärtsilä does not publish quarterly result forecasts. Should business circumstances change and impact the prospects, Wärtsilä would publish changes in the prospects in accordance with regulation.

■ Market estimates

Upon request by an analyst we will review his or her earnings model or report only for factual accuracy of information that is in the public domain. Wärtsilä does not comment or take any responsibility for estimates or forecasts published by capital market representatives.

■ Silent period

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

■ Communications policy and financial communication

Wärtsilä discloses information on its goals, financial position and business operations in an open, timely, truthful and systematic manner to enable stakeholders to form a true and fair view of the company. Our communications activities comprise internal and external corporate communications and investor relations. Wärtsilä publishes stock exchange releases, general press releases and trade press releases. Our subsidiaries publish press releases with local relevance.

Stock exchange releases give information on news that could affect the share price. Press releases provide information on business-related news or other news of general interest to our stakeholders. Releases to the trade press provide more detailed information on our products and technology. All releases are published in Finnish, Swedish and English except those to the trade press, which are only produced in English.

The stock exchange releases and press releases are available on www.wartsila.com immediately after they are published.

■ Contacts

Relations with the company's investors and analysts are handled by Ms Joséphine Mickwitz.

Ms Joséphine Mickwitz
Director, Investor Relations
Tel. +358 (0)10 709 5216
GSM +358 (0)400 784 889
E-mail: josephine.mickwitz@wartsila.com

Wärtsilä's corporate communications and media relations are the responsibility of Mr Atte Palomäki, Group Vice President, Corporate Communications.

Investor Relations activities in 2008

During 2008 Wärtsilä's IR team conducted more than 200 IR meetings in Helsinki, London, Edinburgh, Paris, Frankfurt, Geneva, Stockholm, Copenhagen, New York and Boston. Several investor groups also visited Wärtsilä facilities in various countries. The IR team also gave company presentations at several domestic and international investor conferences. The Capital Markets Day was held in November in Helsinki Finland.

Annual summary of stock exchange releases

18.11.2008	Wärtsilä Capital Markets Day: Wärtsilä's net sales to increase by 10–20% in 2009	09.05.2008	Wärtsilä delivers a power plant to Brazil at value of EUR 80 million	19.03.2008	Wärtsilä's CEO at AGM: "Strong growth in order intake continued in January-February 2008 – growth 47% on the same period last year"
24.10.2008	Interim report January-September 2008	25.04.2008	Interim report January-March 2008	19.03.2008	Decisions of Wärtsilä's Annual General Meeting 19.3.2008
29.09.2008	Wärtsilä to deliver 200 MWe power plant to Pakistan – value EUR 131 million	11.04.2008	Wärtsilä delivers 200 MWe power plant to Pakistan – value of order EUR 134 million	19.03.2008	Constitutive meeting of the Board Of Directors of Wärtsilä Corporation
26.09.2008	Wärtsilä and Metso form joint venture for renewable energy solutions	03.04.2008	Wärtsilä delivers two power plants to Brazil at value of EUR 188 million	03.03.2008	Wärtsilä Corporation's annual report and annual summary of releases 2007 published
28.08.2008	Wärtsilä to deliver 331 MW power plant project to Brazil – value EUR 159 million	02.04.2008	Wärtsilä's gas power plant order to California received permissions	28.02.2008	Wärtsilä Corporation's Annual General Meeting
27.08.2008	Acquisition of Vik-Sandvik's ship design companies in Norway closed	27.03.2008	Trading of Wärtsilä's combined shares begins	28.02.2008	Wärtsilä's Board of Directors proposes to the AGM an extra dividend of EUR 2 and combining of the share series
24.07.2008	Interim Report January-June 2008	26.03.2008	Shares issued in Wärtsilä's free share issue and combination of share series entered in Trade Register	05.02.2008	Wärtsilä's financial statements bulletin 2007
03.07.2008	Wärtsilä aims to become a leader in ship design – acquires global ship design group Vik-Sandvik	20.03.2008	Changes in Wärtsilä's ownership due to combination of share series and directed issue of shares	14.01.2008	Wärtsilä delivers 203 MW gas power plant to South Texas Electric Cooperative in Texas, USA
29.05.2008	Wärtsilä to centralise warehousing and logistics of spare parts				



The stock exchange releases and press releases are available on www.wartsila.com immediately after they are published.

Analysts

To our knowledge at least the following analysts have followed Wärtsilä's development during the last 12 months on their own initiative. They have analysed Wärtsilä and drawn up reports and comments and they are able to evaluate the company as an investment target. Wärtsilä takes no responsibility for the opinions expressed.

CA Cheuvreux
 Carnegie Investment Bank AB, Finland Branch
 Danske Bank A/S, Helsinki Branch
 Deutsche Bank AG, Helsinki Branch
 Enskilda Securities AB, Helsinki Branch
 eQ Bank
 Evli Bank
 E. Öhman J.or Securities
 FIM
 Handelsbanken Capital Markets
 Nordea Markets
 Pohjola Bank plc
 OKO Bank plc
 Standard & Poor's

Patrik Sjöblom +46 8 723 5115
 Miikka Kinnunen +358 (0)9 618 711
 Antti Suttelin +358 (0)10 236 4708
 Timo Pirskanen +358 (0)9 2525 2553
 Sasu Ristimäki +358 (0)9 6162 8900
 Erkki Vesola +358 (0)9 6817 8402
 Jussi Kallasvuo +358 (0)9 4766 9726
 Jari Harjunpää +358 (0)9 8866 6021
 Sanna Kajje +358 (0)9 6134 6430
 Tom Skogman +358 (0)10 444 2752
 Jan Kaijala +358 (0)9 1655 9706
 Pekka Spolander +358 (0)10 252 4351
 Sampo Brisk +358 (0)10 252 4504
 Jawahar Hingorani +44 (0)20 7176 7847

SUSTAINABILITY REVIEW

- 56 Wärtsilä and sustainability
- 62 Economic performance
- 66 Environmental performance
- 68 Products, R&D and the environment
- 74 Environmental performance indicators
- 78 Personnel and social performance
- 86 Report scope
- 86 Reporting profile
- 87 Independent assurance report
- 88 GRI content index



Wärtsilä was one of the first Finnish companies to enter the Indian market in the early 1980s. Wärtsilä India was formed in 1986 and a manufacturing unit at Khopoli near Mumbai in 1989. Wärtsilä has over 1,000 employees in India.

CREATIVITY IS OUR SOLUTION

(AND OUR SOLUTIONS ARE CREATIVE)



Climate change and scarcity of natural resources call for innovative and creative solutions. As a technological enabler our responsibility is to develop such products and solutions that allow our customers to develop their own business in a sustainable way.

Wärtsilä and sustainability

Our commitment to sustainability and responsible business starts from our mission, vision and strategy, which along with its sustainable development objectives create the framework for developing the company's activities and products. Wärtsilä's management system provides us tools for assessing our performance and continuous improvement of our operations and products.

Wärtsilä applies global guiding principles e.g. Quality, Health & Safety and Environment (QHSE) policy and Code of Conduct, which together with the values ensure a harmonised way of working towards sustainable development. The Corporate Manual includes, in addition to the above, a description of the company's operating procedures, responsibilities and the management system structure. Wärtsilä's governance and risk management principles as well as the main sustainability risks are described in the Business Review of this report.

Wärtsilä's impact on Sustainability

Wärtsilä's sustainable development is based on three closely interrelated pillars: economic, environmental and social performance. Responsible conduct is an integral part of Wärtsilä's business processes.

Sustainability impact		
	Local	Global
Economic	■	
Environmental		
- Product related	■	■
- Operational	■	
Social	■	

Wärtsilä and sustainability



From a sustainability impact point of view the product related environmental issues are the most significant aspects for Wärtsilä. The use of Wärtsilä's products has environmental impacts both locally and globally. Other dimensions of sustainability have mainly local impacts.

■ Wärtsilä's focus on Sustainability

Economic responsibility

Economic performance involves meeting the expectations of shareholders and contributing towards the well-being of society. This requires the company's operations to be profitable and competitive. Economic performance, besides creating economic added value direct to the company's stakeholders, also calls for promoting well-being in the local communities where the company operates. Good economic performance establishes a foundation for the other aspects of sustainability as well as safeguards the company's future operating capabilities.

Environmental responsibility

Environmental protection means sound management of natural resources and operating on the environment's own terms. Protecting the air, soil and water as well as combating climate change and using natural resources in a sustainable way are all important objectives, whether these apply to Wärtsilä's own operations or to how its products are used. Environmental performance also requires the company to identify the life cycle environmental impacts of its products and to reduce these impacts through proactive research and development.

Continuous improvement of environmental performance is at the same time a challenge and an opportunity. Wärtsilä continuously develops and improves its operations with the help of certified environmental systems. Strong focus on environmental performance in R&D and product development reduces the

Summary of key figures

Performance indicators ¹	2008 ⁷	2007 ⁶	2006 ⁵	2005 ³	2004 ^{2,4}
Economic					
Net sales (EUR million)	4 612	3 763	3 190	2 639	2 478
Value-added distributed to stakeholders (EUR million)	1 479	1 187	1 156	847	839
Retained earnings for business development (EUR million)	340	-64	257	-43	111
R&D expenses (EUR million)	121	122	85	70	73
Environmental					
Total energy consumption (TJ)	2 383	2 595	1 837	1 881	1 723
■ Electricity consumption (MWh)	151 169	134 543	120 782	123 857	112 324
■ Heat consumption (MWh)	50 193	40 085	104 381	102 265	117 684
■ Light fuel oil (t)	5 432	5 816	6 825	5 232	4 474
■ Heavy fuel oils (t)	22 145	16 237	8 147	10 743	7 169
■ Natural gas (t)	11 160	22 379	10 300	10 079	9 625
■ Other fuels (t)	1 711	1 380	145	135	188
Total water consumption (1 000 m ³)	11 712	11 160	5 794	7 328	7 207
■ Consumption of domestic water (1 000 m ³)	622	634	739	626	606
■ Consumption of cooling water (1 000 m ³)	11 090	10 526	5 055	6 702	6 601
Emissions of nitrogen oxides (t)	1 633	1 348	945	859	1 174
Emissions of carbon dioxide (t)	122 669	101 705	71 092	70 771	66 586
Emissions of sulphur oxides (t)	840	471	206	260	117
Particulates (t)	65	30	13	15	11
VOC (t)	152	79	97	57	47
Non-hazardous waste (t)	35 055	32 142	29 513	22 845	19 587
Hazardous waste (t)	5 154	7 472	5 308	4 296	3 913
Social					
Training days (days/employee)	3.3	3.3	3.3	2.9	3.1
Number of lost-time injuries	548	444	435	370	382
Lost-time injuries (number/million working hours)	16.3	14.6	18.0	16.8	16.6
Absence rate (% of total working hours)	2.4	2.3	2.7	2.6	3.1

¹ The operational performance data in this report has been compiled from the economic, environmental and social records of the Wärtsilä companies. Whilst every effort has been made to ensure that the information is neither incomplete nor misleading, it cannot be considered as reliable as the financial information published in the Financial review.

² The 2004 figures include the third-phase companies, which are presented in the previous reports. The third reporting phase includes all Wärtsilä companies except those mentioned in the Report Scope section.

³ The data include all Wärtsilä companies except those mentioned in the Sustainability Report 2005 Report Scope section.

⁴ The accounting principle for calculating research and development costs was changed in 2004.

⁵ The data include all Wärtsilä companies except those mentioned in the Sustainability Report 2006 Report Scope section.

⁶ The data include all Wärtsilä companies except those mentioned in the Sustainability Report 2007 Report Scope section.

⁷ The data include all Wärtsilä companies except those mentioned in the Report Scope section.

environmental impacts of products. The climate change and other environmental concerns increase the demand for environmentally sound products.

Social responsibility

Social performance involves following good practices and procedures in stakeholder relations. This requires continuous co-operation with suppliers, partners and local organisations.

The Code of Conduct sets the boundaries for Wärtsilä's business operations and their development in line with the Group's strategy. Other important aspects of good social performance are creating a safe working environment and operating procedures, ensuring the well-being of the company's employees and the development of personal skills and competencies.

These aspects maintain the ability of the employees to do their work, as well as raise efficiency and improve Wärtsilä's position as a desirable employer. Product safety means responsibility towards the company's customers and its own personnel. Alongside compliance with safety requirements, essential aspects of product safety also include product support and training. Promoting good social performance requires seamless collaboration throughout the Group network.

Sustainability performance

Wärtsilä Board of Management has the overall responsibility for the sustainability performance. The Board of Management defines the sustainability targets and monitors the performance against these set targets. The performance is reviewed in connection with the management reviews both on Wärtsilä Board of Management and Business Management Teams levels.

Voluntary commitments

In addition to complying with the corporate principles Wärtsilä Corporation additionally applies an agreement signed in 2008,

whereby Finnish industry voluntarily endeavours to use energy more efficiently. Wärtsilä North America Inc. has joined the Customs Trade Partnership Against Terrorism (C-TPAT) agreement signed in 2003.

Wärtsilä tools for Sustainability

Basic principles	Systems and processes	Others
Vision, Mission and Strategy	Quality Management System	Sustainability target setting
Corporate Governance	Environmental Management System	Sustainability management reviews
Corporate policies and principles: QHSE Policy and Code of Conduct	Occupational Health and Safety Management System	Business development tools: - Due diligence - Environmental surveys
Corporate Manual	Supplier Management System	Stakeholder dialogue
Corporate requirements for suppliers	Risk management process	Sustainability reporting
Continuous improvement process: performance measurement, target setting, taking actions and review of the results		

Wärtsilä's management system

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

effectiveness of the system, the achievement of targets and the development of key performance indicators.

Wärtsilä's Board of Management is responsible for defining the company's main strategies, principles and policies and for the management system itself. The Board of Management regularly monitors the effectiveness and performance of the management system. Responsibilities are distributed to the line organisation at all levels of the company and the management system defines a specific sphere of responsibility for each Wärtsilä employee. Work groups for developing the management system are appointed at the corporate level and in most Wärtsilä subsidiaries. At the Group level, the following Work Groups coordinate the development of product and operational issues:

Work Group	Focus	Main tasks
Wärtsilä Quality Management Team	Quality	Quality strategy and guidelines for quality
Wärtsilä EHS Management Team	Environmental, Occupational health and safety	Management system development, corporate level measuring and target setting and monitoring of the legislation development
Wärtsilä Environmental Forum	Environmental aspects related to Wärtsilä products	Create and update Wärtsilä's environmental strategy, coordinate environmental technology development and monitor the legislation development

Management systems

Proportion of Wärtsilä companies with certification		
ISO 14001 63%	ISO 9001 79%	OHSAS 18001 45%

Code of Conduct in brief

1. Compliance with the law

In all its countries of operation Wärtsilä complies with the laws and statutes of the country in question, and the requirements of good corporate citizenship.

2. Openness

The company promotes openness and transparency in its operations and aims for continuous and open dialogue with its stakeholders.

3. Respect for human rights

Wärtsilä's principles include respect for international human rights treaties and the promotion of equal rights. Wärtsilä respects the right of its employees to freedom of association and does not accept forced labour or child labour.

4. Conflicts of interest

Wärtsilä expects loyalty from its employees. Wärtsilä does not accept the giving or receiving of bribes.

5. The environment

In its R&D, manufacturing and other activities Wärtsilä aims to produce environmentally sound products and services. In manufacturing, new technology is used that supports sustainable development.

6. Occupational health and safety

Wärtsilä strives to offer its employees an interesting working environment applying high standards of occupational health and safety.

7. Suppliers

Wärtsilä expects its suppliers to comply with the same high standards regarding legal, ethical, environmental and personnel management issues as Wärtsilä itself applies. The company also helps its suppliers in this task.

8. Implementation

Wärtsilä works actively to ensure that its Code of Conduct is fully implemented. The company employs a number of methods to assess its implementation.



The full Code of Conduct can be found on the company's internet website at www.wartsila.com.

Main expectations of Wärtsilä's stakeholders and Wärtsilä's goals



Business Process Management

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

Product liability

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

Licensees Conference 2008



In September 2008, key Wärtsilä personnel with responsibility for low-speed engine design, licensing, manufacturing, sales and service met the Group's low-speed engine licensees in Lucerne (Switzerland) at the Wärtsilä Licensees Conference 2008.

In the conference, the participants were able to exchange views and experiences related to Wärtsilä low-speed engines. The presentations covered topics of mutual interest, with a particular focus on how Wärtsilä is developing engines to meet current and future market requirements. Wärtsilä demonstrated how its low-speed engines will comply with expected IMO regulations on emissions control, while achieving good fuel economy and meeting customers' needs for greater reliability.

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

■ Supply chain management

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

■ Stakeholder relations

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

Channels of dialogue and assessments of stakeholder relations

Stakeholder	Channels of dialogue	Assessments
Customers	Regular contact with customers, life cycle support for products, customer events and seminars, customer magazines, the internet, conferences and exhibitions, product documentation, customer feedback system, customer relationship on-line (CROL®)	System for measuring customer satisfaction and quality
Employees	Open and continuous communication between management and employees, annual development discussions, information meetings and internal communication (intranet), employee magazines, training events, national statutory employee bodies and European Works Council, occupational health and safety committees, suggestions system, continuous improvement process (CIP), Technology and Innovation Award, Customer Care Award	Employee satisfaction surveys (My Voice)
Owners, investors	Management meetings with investors, financiers and analysts, stakeholder magazines, general meetings, information meetings, stock exchange and press releases, annual and interim reports, capital markets days, the internet, investor relations surveys, sustainability questionnaires	Investor relations surveys, sustainability surveys and indexes
Suppliers	Open and active dialogue between the sourcing organisation and suppliers, supplier portal, supplier development, supplier management system, Supplier Days, Supplier of the Year Award	Supplier assessments
Society	Reporting to, and co-operation with, public officials on issues such as the environment and occupational health & safety, Open Doors days, sustainability reports, corporate presentations, local communications, the internet	Stakeholder feedback, corporate image surveys
Organisations	Membership, regular contact, participation in activities of local trade and industrial organisations, active role in working groups, contact with various public bodies, e.g. through ministries, reports	
Universities	Opportunities for practical training and degree theses, R&D projects, participation in recruitment fairs and seminars, sponsorship of student activities	Preferred employer surveys
The media	National and international business media and journals, trade publications, interviews and press releases, main annual publications, meetings, visits, factory tours	Surveys conducted among business journalists, media surveys, reporting comparisons

Wärtsilä participates in the activities of the following organisations:

Stakeholder	Organisation	Nature of activity
Interest groups (Finland)	Confederation of Finnish Industries (EK), Chambers of Commerce, Technology Industries of Finland	Active membership, Chairmanship
Industrial and trade organisations	European Association of Combustion Engine Manufacturers (Euromot), European Marine Equipment Council (EMEC), Engine Manufacturers Association (EMA), Cogen Europe and VDMA	Participation in activities Presidency (EMEC)
Standardisation organisations	European Committee for Standardization (CEN), International Organization for Standardization (ISO)	Participation in activities
International organisations	International Maritime Organization (IMO) International Council on Combustion Engines (CIMAC)	Participation in activities, Board membership and participation in activities
Other	World Alliance for Decentralized Energy (WADE) European Federation for Quality Management (EFQM)	Chairmanship Participation in activities

ECONOMIC PERFORMANCE

Wärtsilä aims to meet the shareholder expectations and contribute towards the well-being of society. This requires efficient, profitable and competitive company operations. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

■ Creating economic added value

Wärtsilä's purpose is to create value for its various stakeholders. The focus is on profitability and raising shareholder value. Achieving this depends on our ability to satisfy the expectations of our other stakeholders as well. This includes providing customers with high-quality and environmentally sound products, solutions and services, building long-term partnerships with suppliers, offering employees competitive compensation and working conditions, and contributing to the well-being of the local communities in which we operate. Despite the uncertain market conditions our success supported our strategy of profitable growth. Our target is to grow 6–7% over the cycle and our profitability target (EBIT) is 8–10% of net sales over the cycle with a range of +/- 2%. In 2008, Wärtsilä's net sales grew 23% and totalled EUR 4,612 million. Europe's share of net sales was 37%, Asia's 39%, Americas' 15% and others' 9%. Profitability improved significantly by 38% to EUR 525 million.

■ Customers

Wärtsilä creates added value for its customers by providing products, solutions and services that fulfil their needs and expectations. The development of high-quality, reliable and environmentally sound solutions and services depends on long-term collaboration and continuous interaction with customers. We provide our customers with service throughout the product life cycle, thus ensuring optimal performance during the product's lifetime. The modernisation of installed products can also extend their service life.

■ Suppliers

Suppliers play a significant role in our delivery process. We aim to deepen the partnerships with our suppliers in order to ensure that both parties mutually understand, and are able to respond to, our strict process and product requirements. Apart from financial benefits, partnerships create added value for suppli-

Added value distributed to Wärtsilä's stakeholders

MEUR		2008	2007	2006	2005	2004
Customers	Net sales	4 612	3 763	3 190	2 639	2 478
Suppliers	Cost of goods, materials and services purchased	-3 134	-2 576	-2 034	-1 791	-1 640
	Value added	1 479	1 187	1 156	847	839
Distribution of value added	Distributed to stakeholders					
Employees	Wages and salaries	693	592	511	434	457
Public sector	Taxes and social dues	288	242	213	150	184
Creditors	Interest on debt and borrowings	9	8	7	23	4
Shareholders	Dividends	148	408	167	283	83
Communities	Donations given	1	1	1		
For business development		340	-64	257	-43	111



ers through the knowledge and development support we offer them. Successful partnership can also assist a local supplier in expanding internationally by becoming a part of our global supply chain. In 2008 the value of goods, materials and services purchased by Wärtsilä was EUR 3,134 million. Wärtsilä has more than 3,700 active suppliers, most of whom are located in Europe where we have our main production units. We are also continuously investing in developing a strong network in Asia.

■ Employees

At the end of 2008 Wärtsilä had 18,812 employees worldwide. We also employed thousands of people indirectly through our supply chain. In order to be able to recruit competent and motivated

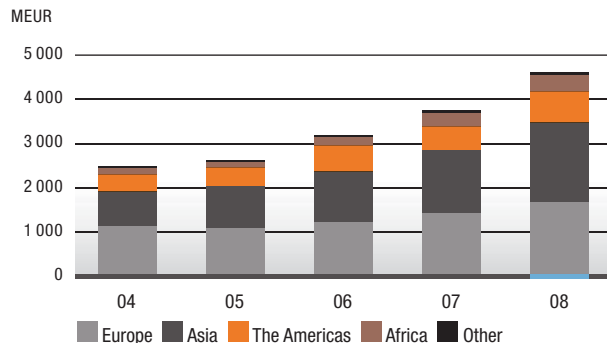
people, we endeavour to offer employees competitive salaries, opportunities for continuous personal development and a good working environment. Developing employee skills and competences is of critical importance both for our business performance and for the development of the employees. Salaries totalled EUR 693 million in 2008. This figure includes basic salaries as well as payments based on various profit sharing and incentive schemes, which cover some 60% of the total workforce.

■ Pension Cover

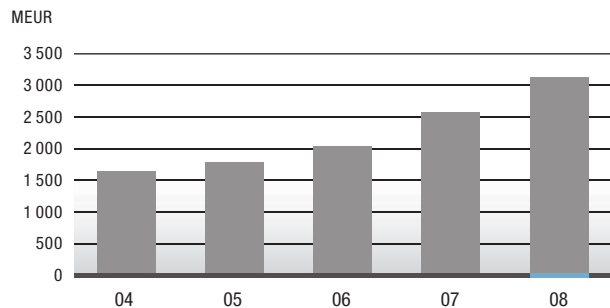
The pension cover is based on the legislation and agreements in force in each country. In Finland most of the pension obligations are covered by the Employee Pensions system (TEL). The

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 practise in each country. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans. More information on the Group's pension obligations can be found in the Financial Review, Note 21. Pension obligations.

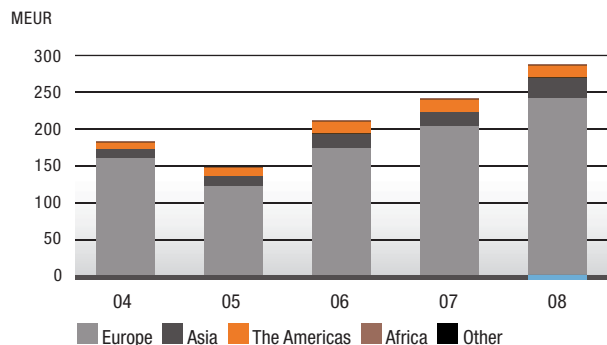
Net sales by market area



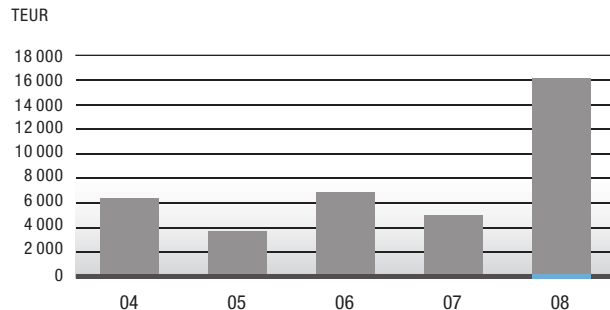
Cost of all goods, materials and services purchased



Taxes and social costs by market area

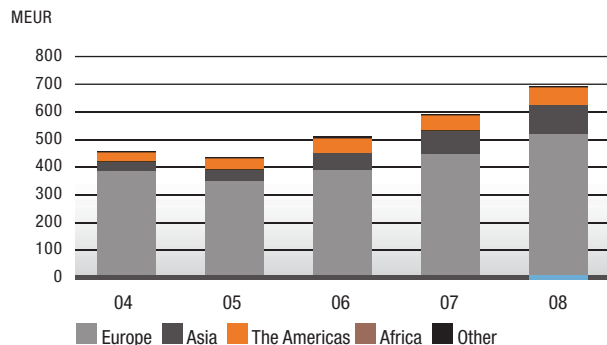


Subsidies received from the public sector¹

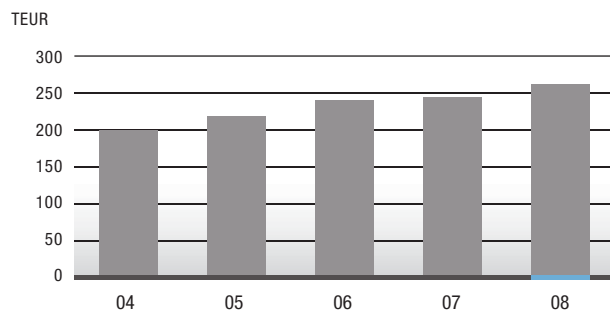


¹ The 2004–2006 figures from 12 major Wärtsilä companies and the 2007–2008 figures from 14 major Wärtsilä companies.

Salaries & wages by market area



Net sales/employee



Wage levels

Wärtsilä applies and follows in all countries the local employment legislation and respects the local collective labour agreements, which often define the minimum wage levels. In addition to that, entry level salaries are benchmarked against the market references by function and educational qualification. Laws and regulations give the minimum level, but often the actual salaries exceed these levels. Total compensation package is tailored for each country aligned with both corporate rewarding guidelines and local market practices. The base salary is set to meet market conditions, the demands of the job and individual competence and performance.

Hiring principles

In principal all open vacancies are published both externally and internally ensuring equal opportunity to apply Wärtsilä positions. If there is no specific reason, like competence transfer need from other countries, to hire expatriate to the position, local residents are hired. This principle also applies to senior management. Senior management includes global business and corporate management and local company management positions.

Public sector

Wärtsilä pays various social dues and taxes to the governments of different countries. Income taxes and social dues in the financial period 2008 were EUR 288 million. The social costs for employees contribute to the funding of pensions, unemployment and other social benefits that provide security and improve the quality of life for the company's employees and their families.

Wärtsilä companies also receive subsidies from the public sector. The value of the subsidies received in 2008 was EUR 16 million and they were among others related to R&D projects such as the major HERCULES cooperative research project.

■ Creditors

In 2008 Wärtsilä's net financial items totalled EUR 9 million. At the end of the year Wärtsilä's net interest bearing debt amounted to EUR 455 million, the solvency ratio was 34.3% and gearing was 0.39.

■ Shareholder value

Dividends totalling EUR 148 million are proposed to be paid to the company's shareholders. Our dividend policy is to pay a dividend equivalent to 50% of its operational earnings per share. The dividends paid per share are presented in notes to the financial statements. Earnings per share (EPS) was EUR 3.88 and Wärtsilä's market capitalisation at the end of 2008 was EUR 2,072 million.

■ Community support

At the national level, we provide financial support for a number of national, cultural and social activities. The Board of Directors has supported activities focused on children and young people, national defence, disabled war veterans, and medical and technical research. Wärtsilä's Board of Directors contributed altogether EUR 70,000 to these activities in 2008.

Donations to good causes by the Board of Directors

TEUR	2008	2007	2006	2005	2004
Total	70	70	70	70	77

At the local level, Wärtsilä has provided financial support to cultural, educational, sports and other activities as shown in the following table.

Donations to local organisations¹

TEUR	2008	2007	2006	2005	2004
Total	463	485	614	344	385

¹ The 2004–2006 figures include the data from 12 major Wärtsilä companies and the 2007–2008 figures from 14 major Wärtsilä companies.

■ Wärtsilä and climate change

Wärtsilä Italia S.p.A is the only subsidiary that falls into the scope of EU Emission Trading Scheme (ETS) because of the heating plant of the factory. EU ETS has not had any impact on profitability. Wärtsilä's main responsibility concerning the climate change is to develop and provide products, solutions and services that enable our customers to reduce their greenhouse gas (GHG) emissions. We also support our customers to utilise the Kyoto Flexibility Mechanisms (JI and CDM) in their power plant projects. More information about Wärtsilä's solutions for climate change can be found in the Environmental Section. The potential business risks related to climate change and Wärtsilä's products are presented under the Climate change and Sustainability risks in the Risk Management chapter.

■ Wärtsilä in sustainable development indexes

Wärtsilä has been admitted to the Ethibel Investment Register and the Ethibel Pioneer Sustainability Index, ASPI Eurozone® Index and FSTE4Good Index. ■

PASSIONATE

Extension of our Services network – value for our customers and local communities



Wärtsilä has extended its service network in 2008 by both opening new service centres and workshops and extending the existing ones. Our aim is to provide best services to our customers. During 2008 new workshops and extensions took place in Namibia, Chile, Brazil, South Korea, Azerbaijan, China, Turkey, the United Arab Emirates, Papua New Guinea, Hungary and Ukraine.

“Our presence close to our customers adds value to our customers but also for the local communities,” says Tage Blomberg, Group Vice President, Services. The extension of our service network benefits the local economy and provides employment for more than 400 people.

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ENVIRONMENTAL PERFORMANCE

Applying the high environmental standards and continuous improvement of environmental performance are the cornerstones of Wärtsilä sustainability programme, and they include both the product performance and operational performance.

Continuous improvement of environmental performance in the company's operations requires the organisation to work systematically year on year. This work is guided by our strategy and its environmental targets, Code of Conduct and policy for Quality, Occupational Health and Safety and Environment and is coordinated and monitored by Environmental Forum and EHS management team. In developing our operations, processes and products, we endeavour to use the latest technology available for improving efficiency in materials and energy consumption, and for reducing and managing emissions and wastes.

Wärtsilä continuously develops and improves its operations and products with the help of certified environmental systems. In 2008 we updated our management system approach and our new principle is to apply certified EHS (Environmental, Health and Safety) management systems based on ISO 14001 and OHSAS 18001 in all Group companies, excluding the companies focusing purely on sales. These units need to apply Wärtsilä's internal EHS model. Our EHS management systems cover all the operations of our subsidiaries, which means that we are able to promote environmental protection and reduce adverse impacts on a wide front.

Environmental targets

Target	Status
Reduced energy consumption by at least 10% in terms of absolute consumption (GWh) by 2016 compared to mean energy consumption in 2005.	Year 2008 has been planning phase for the project. Wärtsilä subsidiaries have defined the actual targets of their own. Overall action plan has been established.
R&D: The full release of 710 ppm NO _x engine concepts for power plant engines and, in the case of marine engines, compliance with upcoming US and EU regulations.	The emission levels for power plant engines have been reached and the engine types have been released in various release stages. The full releases of various engine types are dependent on sufficient installation feedback. Wärtsilä 26 marine engine was EPA certified in 2007.
R&D: Reducing the fuel consumption of diesel and gas engines, reducing fuel consumption and emission levels in the 2-stroke engines, and reducing emission levels in common-rail engines.	Reduction of fuel consumption of 4-stroke engines are proceeding according to plan. The new IMO regulations, published in November 2008, require a revision of the 2-stroke target level and the means to achieve the target. The revision has been started and the development continues towards more efficient engines with lower emission levels.
Ship Power: Broadening of the gas concept, increasing sales of environmental seals, and improving the propulsive performance of seagoing vessels	Active project development ongoing. One non-LNG solution delivered. Sales of environmental seals have exceeded the target (50%). Work towards reaching the efficiency target is proceeding as planned.
Services: Increase in diesel-to-gas engine conversions, sales of exhaust gas scrubbers, and an increase in the number of engines covered by CBM and O&M agreements.	The diesel to gas conversions and sales of exhaust gas scrubbers are delayed due to changes in the market needs. CBM target (5,000 MW) has been reached and the O&M target is proceeding according to plan.
Power Plants: Introduction of a combined effluent treatment unit for treating various plant effluents, the market launch of wet techniques for optimised NO _x reduction and fuel economy, and the active sales and marketing of power plant technology based on renewable fuels.	The technology of wet techniques for optimised NO _x reduction and fuel economy has been validated; however the market needs have been limited. The other targets have been already reached.



The company's EHS management system focuses especially on compliance with legal requirements, identifying and reducing environmental aspects, impacts and risks, training personnel and clearly defining their responsibilities, full documentation of activities and procedures, action in emergencies, and continuous improvement of environmental performance. The company's subsidiaries set their own goals and targets covering significant environmental aspects of their operations and monitor the overall performance of the management systems.

At the end of 2008 39 Wärtsilä companies had operated with a certified environmental management system. These certified environmental management systems cover roughly 87% of Wärtsilä's total workforce. ■

Wärtsilä Policy for Quality, Health & Safety and the Environment

Our power solutions and services meet or exceed customers' and other stakeholders' expectations being

- reliable and safe
- efficient and environmentally sound
- compliant with the applicable legal requirements and regulations.

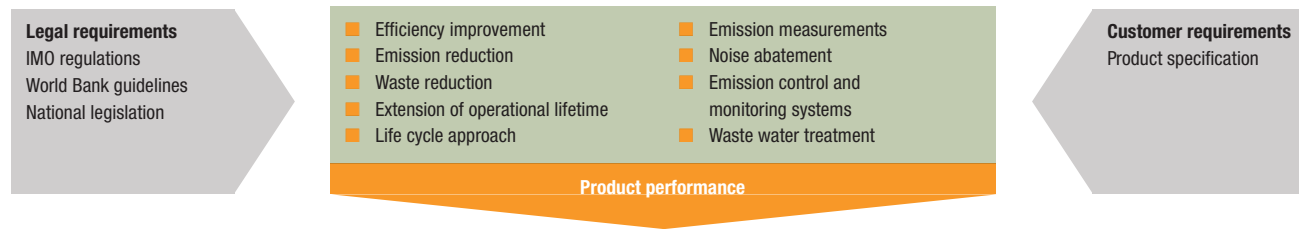
We continually improve our performance and reduce adverse environmental impact, through objectives set by management, to satisfy our customers and other stakeholders.

Our business premises provide a safe and healthy working environment for our employees and partners.

Our skilled organisation acts as a responsible global citizen.

Wärtsilä's Board of Management approved the policy in January 2007.

Environmental management in Wärtsilä



Products, R&D and the environment

Wärtsilä's main sustainability goal is to supply environmentally sound solutions and services, which enables its customers to develop their business in a sustainable way. This requires continuous investment in technology development and an ongoing search for new solutions.

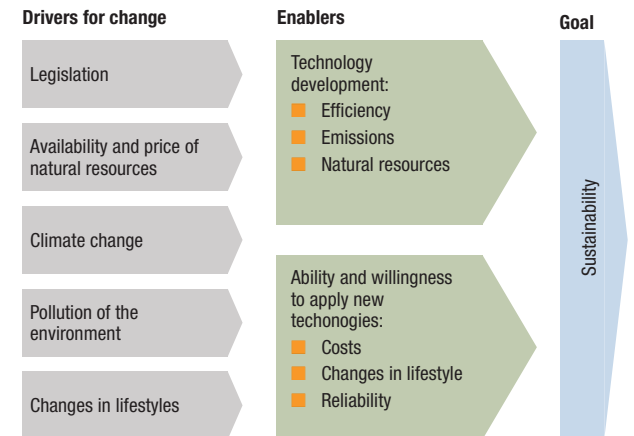
Wärtsilä gives strong priority to developing and applying technology with the aim of reducing the environmental impacts of its products. For the company to meet its customers' needs, be prepared for future requirements, and remain a front runner in the industry, Wärtsilä's product development must be continuously innovative, determined, and willing to explore new technologies. Environmentally sound products and solutions are developed on a wide front, including technologies related to efficiency improvement, reduction of gaseous and liquid emissions, waste reduction, noise abatement and effluent treatment. Wärtsilä has developed both primary and secondary technologies and broadened the range of suitable fuels, in order to meet the future requirements.

Key features of Wärtsilä's environmentally sound solutions are:

- Reliability and long lifetime
- Solutions to reduce emissions
- Alternatives for heavy fuel oil
- Flexibility in fuel use
- Solutions to maximise efficiency
- Solutions to minimise the water consumption
- Optimisation of vessel design and operations.

Investing in product development benefits Wärtsilä's customers as well as the environment, both in the short-term and over a longer time span. Growth in the world's energy needs, combined with increasingly stringent environmental requirements, creates a challenging operating climate for companies in Wärtsilä's line of business. Wärtsilä has responded to these challenges by improving the energy efficiency of its products while simultaneously reducing their emissions.

The drivers of sustainable development



Environmental legislation and initiatives

Concerning Wärtsilä products, the environmental requirements are set at the international level mainly by the International Maritime Organization (IMO) and the World Bank. Other important environmental restrictions that affect our products are e.g. the US EPA and the German TA-Luft regulations that are often applied to gas engine plants, and the emission limits on diesel engines set by India and Japan.

Wärtsilä actively monitors legislative initiatives and changes in environmental legislation to ensure the company's ability to respond appropriately to future operating conditions. Wärtsilä's R&D activities follow the requirements of the changing operating environment, and develop products that give the company a competitive edge and that enable more stringent environmental regulations.

Case Ecotech



Tighter emissions legislation along with an increasing global focus on lowering CO₂ emissions are impacting both the shipping and the power plant sectors. As a response to these environmental challenges, Wärtsilä has established a new centralised environmental products know-how unit. The Delivery Centre Ecotech (DC Ecotech) unit will focus on developing and delivering environmental technologies, as well as products for emissions reduction and efficiency improvement.

In explaining the reasoning behind this initiative, Mr Juha Kytölä, Head of DC Ecotech comments: “Wärtsilä has many years of experience in delivering emissions reducing equipment. Common to all these deliveries is the fact that they are tailor-made for each specific installation. DC Ecotech will focus on both the further development of these technologies, as well as a portfolio of products that can be produced in volume.”

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■ Fossil fuels and climate change

Declining fossil fuel reserves, the lack of sufficient production and refining capacity, and growing demand have all been pushing up the price of oil in recent years, spurring increasing interest in alternative fuels. Also, the climate change issue and reduction targets of CO₂ emissions have increased the demand for alternative fuels and technologies.

The use of natural gas is growing due to improved supplies and its environmental advantages. In the past, natural gas has been used by onshore power plants, but today marine vessels are making increasing use of liquefied natural gas (LNG) for fuel. At the same time, international climate agreements are boosting the use of natural gas significantly. The role of biofuels in the world’s energy supply is increasing. Regional and national targets to increase the proportion of biofuels have boosted the demand for biofuel-based solutions.

Technology can, at its best, help to solve many challenges relating to climate change and the sufficiency of natural resources. Technology that helps us meet increasing demand while, at the same time, resisting harmful change to the climate, is needed for the efficient exploitation of natural resources.

■ Wärtsilä and climate change

Wärtsilä has developed various solutions to contribute to the reduction of greenhouse gases. As a result of our long-span development work, we have managed to develop a range of engines that feature both high efficiency and low emissions.

These engines are used for both marine and energy production solutions. High efficiency is important in the control of climate change, and with low emissions our products meet the various environmental regulations. The efficiency of Wärtsilä diesel and gas engines ranges between 42–50%, depending on the engine type.

The Wärtsilä dual-fuel (DF) engine is an innovation having a significant effect also on controlling climate change. Thanks to the technology developed by Wärtsilä, our customers can flexibly employ the same engine using various fuels. This also makes it possible to reduce the impact on the environment.

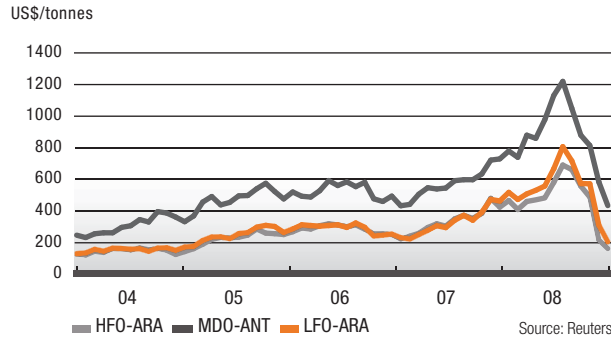
In addition to power plant applications, DF-engines are also used for the powering of LNG-carriers and in the future also for other types of vessels. With this single solution developed by Wärtsilä, the total CO₂ emissions of all our current customers’ applications will be reduced by several millions of tons when compared to traditional gas transportation. At the same time, the availability of gas will be improved and the environmental impacts of gas transportation will be reduced. CO₂ emissions can be reduced even more effectively with renewable energy sources, such as bio-oils.

Wärtsilä applies new technologies also to its existing products, which makes it possible to further reduce their environmental impact. With the help of our service products, we can improve the efficiency of older engines and reduce their emissions to the same level with our newer products. We also convert oil-fuelled engines for gas or bio-fuel use.

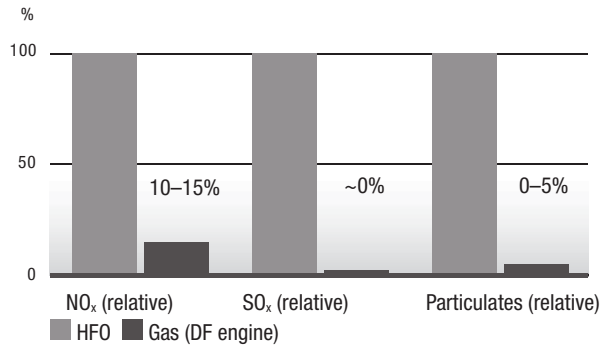
In addition to the above-mentioned bio-oil engines, Wärtsilä’s product portfolio includes power plants that use solid biomass as fuel. With the help of our technology, we can use various wood-based bio-fuels, such as bark, sawdust, wood chips, and even peat as the energy source. These wood-based biofuels are by-products of the wood processing industry.

As the front runner of the industry, Wärtsilä has a responsibility to develop and supply advanced solutions that enable the environmental impact of its customers to be reduced. This is the main role of Wärtsilä in the combat against climate change.

Prices of fuel oils



Comparison of typical specific NO_x, SO_x and particulate emissions – influence of fuel type



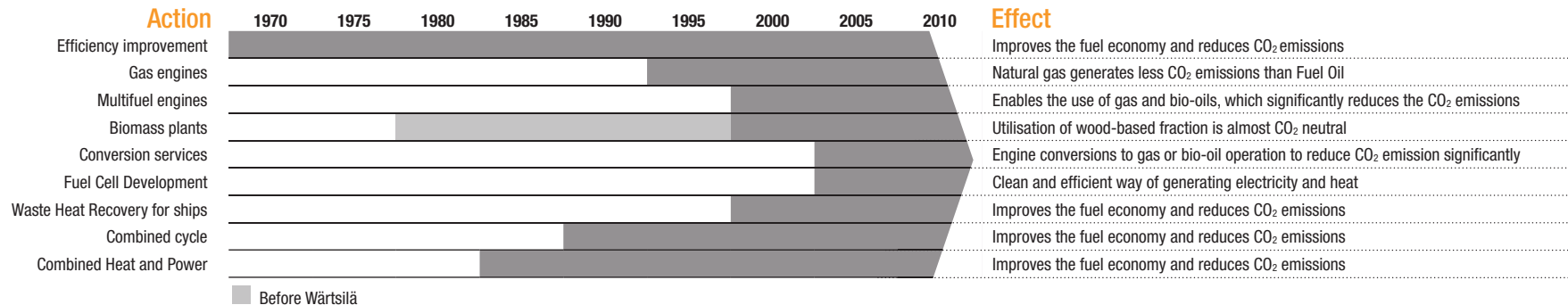
R&D principles and most important R&D programmes

Wärtsilä applies new technologies that cross traditional scientific disciplines and conventional industrial boundaries to solve product development tasks, thus producing added value for its customers and the environment. Wärtsilä's R&D organisation creates the basic elements that make a product both attractive and competitive. Wärtsilä's R&D activities focus on products and applications that are fuel-efficient, reliable, self-diagnostic, cost-efficient to operate, and that produce minimal environmental impacts throughout their life cycles. The company takes a proactive approach to managing its intellectual and industrial property rights through incentive schemes for its employees that encourage innovation and initiative. A paramount priority in Wärtsilä's R&D activities is to develop and safeguard the company's critical areas of expertise. Wärtsilä's research organisation has long-term co-operation agreements with research institutes, engineering consultants, licensees, and other corporate partners in fields that are of crucial importance to the well-being of society and the conservation of the environment.

Product development is based on effective work process management to ensure that the set targets are reached. These boundary conditions form the hub of the process around which a reliable and cost-effective product is developed. The performance of the products and their features are verified through simulations, functional tests and longer-term validation. Wärtsilä actively develops the commonality and modularity of its products, and designs products that are easy to manufacture. A substantial proportion of the company's investments in product development is targeted at reducing environmental impacts. Total R&D expenses are shown in the 'Wärtsilä and Sustainability' section of this report.

The most important areas of R&D for Wärtsilä in recent years have included the application of common-rail technology to its engines, developing best suitable technologies to reduce emissions, improving efficiency and broadening the range of suitable fuels. Major engine R&D programmes during 2008 were related to the HERCULES B project, IMO Tier II and III NO_x reduction technology developments and the Advanced diesel generating set project. Wärtsilä also conducted several other development programmes related to Fuel Cells and secondary emission con-

Wärtsilä's actions to reduce GHG emissions



trol systems, such as marine scrubber and SCR projects. Wärtsilä also co-operates with a number of leading European universities conducting research into engine technologies.

■ The HERCULES ß project

The HERCULES (High Efficiency Engine R&D on Combustion with Ultra Low Emissions for Ships) project, funded by the EU Commission, was finalised in September 2007. A follow-up project, Hercules Beta, was launched in September 2008 within EU 7th framework programme. This 36 month and 26 Million Euro project is steered by two leading engine designers and manufacturers, Wärtsilä and MAN Diesel and brings together 32 partners across Europe. Continuation of research under this

Wärtsilä gives strong priority to developing and applying technology with the aim of reducing the environmental impacts of its products.

framework will ensure the exploitation of the created know-how and partnerships within the first HERCULES project and penetrates into new areas.

One aim of the project is to develop new technologies to reduce gaseous and particulate emissions from marine engines. A second objective is to increase engine efficiency and reliability, which in turn will reduce specific fuel consumption, carbon dioxide emissions, and life cycle costs. More than 50% reduction in NO_x emissions (compared to 2000 level) and 10% reduction in fuel consumption is sought by year 2020.

■ Advanced diesel generating set (GENSET)

This project aims to develop a compact and highly competitive diesel generating set by exploiting the benefits offered by permanent magnets and axial flux technology. The plan is also to make use of the know-how available at a number of Finnish research institutions in order to develop new concepts for future fuel injection systems, valve actuating systems, and turbocharging systems. The project is funded by Tekes, the Finnish Funding Agency for Technology and Innovation.

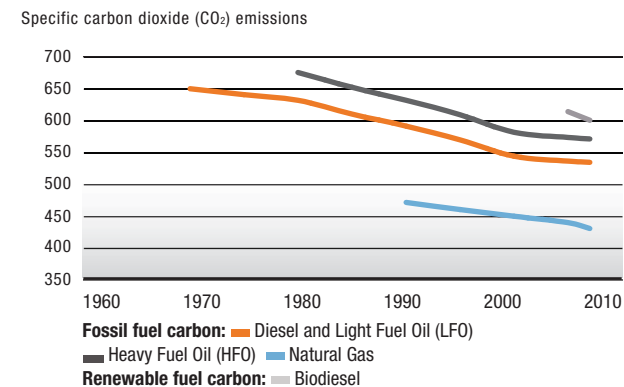
Validation of a prototype diesel generating set commenced at the Vaasa engine laboratory in 2007. The generating set, which has provided an excellent platform for the development of new technologies and concepts, have been subject to extensive performance and technology validation during 2008. The validation of the GENSET-concept will continue in 2009.

■ Development of fuel cell technology

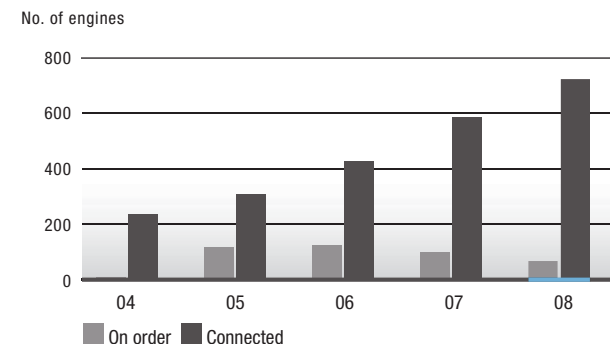
A fuel cell is a clean, efficient and reliable method of producing energy, making it a highly attractive option for commercial power production. Wärtsilä has been developing fuel cell technology for decentralised power generation and marine applications since the year 2000. The company's fuel cell development team is focusing on developing, designing and manufacturing a solid oxide fuel cell (SOFC) system. In this work Wärtsilä is taking advantage of its extensive know-how in combined heat and power generation, and the company's in-depth knowledge of its marine customers' needs.

Part of the R&D programme covers the development of the WFC20 and WFC50 units, 20 and 50 kW SOFC units. Wärtsilä introduced its first demonstration units in the 20 kW in connection with Vaasa housing fair. Within the coming years, the company is planning to introduce pre-commercial units in the 20 to 50 kW range. Commercialisation of fuel cell units for onshore and offshore power plant applications will start at the begin-

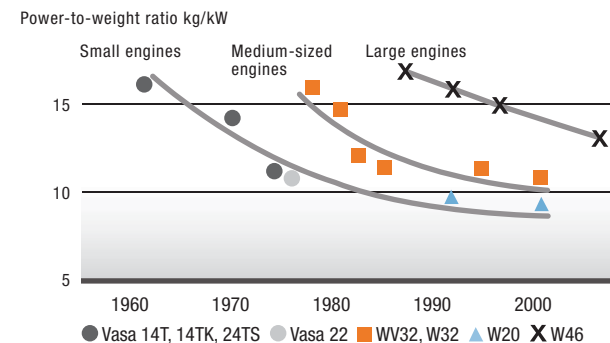
Development of specific carbon dioxide emissions of Wärtsilä engines



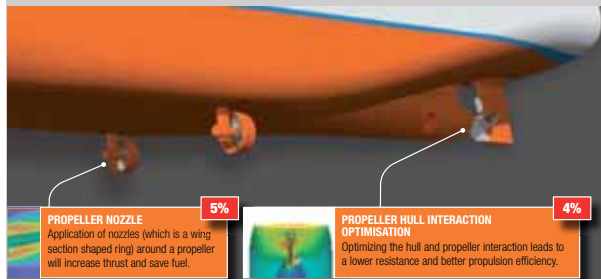
Engines connected to CBM



Power-to-weight ratio of Wärtsilä's medium-speed engines for 6-cylinder in-line engines



Energy Efficiency Catalogue



Wärtsilä published in November 2008 “Energy Efficiency Catalogue”, which contains more than 50 different efficiency improvement actions for saving energy in ships. In addition to our long-term effort to improve the efficiency of our solutions, we wanted to share our views and know-how with our partners and guide the maritime business towards a more efficient future with less wasted resources.

The purpose of this catalogue is to give some ideas to ship operators and owners of how to make both existing and future vessels more efficient and environmentally sound. Our aim is to show from a neutral viewpoint a vast range of potential areas for efficiency improvement. They are based on today's technology and are presented irrespective of the present availability of such solutions either from Wärtsilä or any other supplier.

Energy reduction measures cover many different phases in the ship life cycle phases and areas of technology – ship design, propulsion, machinery and operations and maintenance. By combining all these areas and treating them together as an integrated solution, a truly efficient ship operation can be achieved. The measures can be applied to a wide range of ship types.

Please, visit www.wartsila.com for a more complete view of the solutions introduced in this catalogue.

ning of the next decade. Wärtsilä is participating in three major EU-funded development projects in which three fuel cell units developed by Wärtsilä will be built and tested.

■ Reducing sulphur oxide emissions from marine engines

Wärtsilä's scrubber project is proceeding according to plan. The demonstration unit has been commissioned onboard the product carrier MT Suula and has been started on November 10th 2008. Certification of the scrubber system is planned for the beginning of 2009. The solution is based on a closed loop fresh water scrubber which is the only technology to date to allow full control of scrubbing efficiency. It has the lowest energy consumption and CO₂ footprint, and enables bleed water being held onboard in sensible areas where water discharge would not be allowed by port authorities.

The vast experience of delivered SO_x-scrubbers for stationary plants combined with Wärtsilä's expertise in marine applications has helped to design the most suited solution for marine industry. Scrubbing technology has been confirmed at IMO MEPC 58 in October 2008 as a valid alternative to low sulphur fuels to reduce sulphur oxides in marine gas emissions (regulations 14 and 04).

To help customers in selecting the best solution for their ship type, Wärtsilä is offering a 2-stage approach to feasibility studies: (a) an economical study that concentrates on the economical profitability of potential configurations in a compact form, and can be made in very short time, and (b) a layout study that requires more technical information of the ship. The layouts are generated and give a full idea of the insertion of the system onboard the ship, together with operation indication and pay back time calculations.

■ Collaboration with stakeholders

Co-operation with customers and suppliers creates added value for the entire supply chain, as well as for the end customer. Identifying and achieving common goals succeeds best through co-operation with the whole supply chain. Wärtsilä has gained promising results in working closely with various stakeholders towards improving reliability, overall efficiency and environmental performance of its solutions.

Wärtsilä collaborates with Mitsubishi Heavy Industries and Hyundai Heavy Industries in the fields of product development, manufacturing and distribution. A new series of low-speed engines started in the first half of 2008. Wärtsilä also collaborates with Becker Marine Systems with the aim of furthering the development of marine propeller-rudder systems.

Wärtsilä is now involved in an increasing number of customer development cases in which innovative solutions are researched to build the next generation of more efficient ships. Targets are set to improve overall ship efficiency by at least 25–35% from today's state of the art solutions.

■ The importance of understanding the life cycle impacts

Since Wärtsilä's products have such a long operational life, identifying the life cycle impacts of the products is essential to understanding their total environmental impact. Based on results of life cycle assessments, the majority of the environmental impacts of a diesel engine arise during the operation of the engine; from exhaust emissions during engine operation, and from the fuel supply chain relating to its operation. Wärtsilä manages the life cycle of its products through product design, careful choice of suppliers, production methods, optimising transportation, maintenance and repair during the products' operational lifetime, and by training and advising customers. ■

Summary of environmental aspects of Wärtsilä's products and solutions

Environmental aspect and product	Environmental impact and component	Wärtsilä's solution	Customer's options
Emissions into the air	Pollution of air		
Engines and power plants	Climate warming: Carbon dioxide (CO ₂)	Increasing engine and plant efficiency, multifuel engines	<ul style="list-style-type: none"> ■ Using a different fuel ■ Using a fuel with a lower sulphur content ■ Investment in secondary emission reduction technologies ■ Planned or optimised maintenance and correct operation
	Acidification: Sulphur oxides (SO _x)	Increasing engine efficiency, several emission reduction technologies, multifuel engines	
	Acidification, eutrophication, lower atmosphere ozone formation: Nitrogen oxides (NO _x)	Low NO _x combustion, air humidification technologies, SCR, multifuel engines	
	Human health impacts, visual impact: Particles, smoke (PM)	Optimising the combustion process, common-rail fuel injection, electrical filters	
	Reduces oxygen uptake in the lungs: Carbon monoxide (CO)	Optimising injection, compression, and the shape of the combustion space, oxidation catalysts (gas engines)	
	Climate warming (CH ₄), ozone formation in the lower atmosphere, some carcinogenic compounds: Hydrocarbon (THC, VOC)	Oxidation catalysts in gas engines for VOC emissions, optimising the combustion process	
Consumption of raw materials	Depletion of natural resources		
Engines	Cast iron, alloy and structural steel, aluminium alloys. Main chemical elements of engines: Fe 90.8%, Al 2.7%, C 2.2%	Long product life, using recycled materials, material efficiency, automated filters, modernising engines, overhauling and recycling components	<ul style="list-style-type: none"> ■ Planned or optimised maintenance and correct operation ■ Personnel training ■ Overhauling ■ Recycling components ■ Recycling catalysts ■ Optimising process parameters
Propulsion systems and seals	Metals, bronze, rubber. Main chemical elements of propulsion systems: Cu 80.1%, Al 9.3%, Ni 4.9%	Long product life, using recycled materials, material efficiency	
Power plants	Several different materials such as steel, concrete, seals, water	Prefabricated modules, material efficiency	
Secondary cleaning technologies	Alloy and structural steel, different types of catalyst materials, reagents (e.g. ammonia, urea), water	Developing primary technologies; developing secondary technologies in collaboration with equipment manufacturers	
Consumption of fuel & lubricating oils	Depletion of natural resources		
Engines and power plants	Liquid oil-based fuels (e.g. LFO, HFO, Orimulsion®), gas fuels (e.g. LNG, NG, CNG) and biofuels (e.g. rapeseed and palm oil, biomass), lubricating oil	Improving energy efficiency, reducing the consumption of lubricating oil, multifuel engines, utilising biofuels and alternative fuels in power production	<ul style="list-style-type: none"> ■ Planned and optimised maintenance and correct operation ■ Personnel training ■ Using environmentally benign fuels ■ Using environmentally favorable lubricating oils ■ Using environmentally favourable seals
Propulsion systems	Lubricating oil, hydraulic oil	Improving the total operating efficiency of ships, increasing the service life and reducing the consumption of lubricating oil, preventing oil leakages	
Solid and liquid waste	Increased waste at landfill sites		
Engines	Lubricating oil used, filters and components, waste oil	Using recyclable materials and optimising the use of materials, automated filters, long service intervals, overhauling components, reducing the consumption of fuel	<ul style="list-style-type: none"> ■ Planned and optimised maintenance and correct operation ■ Personnel training ■ Recycling and proper waste disposal ■ Evaluation of the potential uses of end products ■ Optimising process parameters
Power plants	Construction waste, ash, waste water, waste oil, office waste	Prefabricated, ready-to-install modules	
Secondary cleaning systems	End products and catalysts of flue gas decontamination	Evaluating the potential uses of end products, developing dry primary technologies	
Noise and vibration	Discomfort		
Engines and power plants	Structure-borne noise, flue gas noise, airborne noise	Efficient noise reduction solutions and damping systems, e.g. re-positioning wall structures and noise-generating sources	<ul style="list-style-type: none"> ■ Planned maintenance and correct operation of power plant
Heat emissions	Warming of the atmosphere		
Engines and power plants	Waste heat from exhaust gases	Heat recovery systems	<ul style="list-style-type: none"> ■ Optimising process parameters

Environmental performance indicators

The environmental impacts from Wärtsilä's operations largely relate to manufacturing. The main environmental aspects of manufacturing concern the use of energy and natural resources, and thus also the emissions that manufacturing produces.

Product development also requires the testing of products and individual components which, alongside manufacturing, also loads the environment. However, the positive impacts of product improvements on the environment far outweigh the negative impacts of testing when taking the product's entire life cycle into account.

■ Materials

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys and bronze. Recycled material content of these metals vary depending on material and supplier in question. E.g. recycled material, such as end-of-life coins and bronze propellers, is used in the casting of new propellers. In 2008 the total material usage was 113,772 tons. The major material groups were various metals (83%), sand (11%) and various chemicals (4%).

■ Energy

Total energy consumption

The total energy consumption (in terajoules, TJ) includes the electricity, heat and fuels used in Wärtsilä companies in recent years.

Electricity

Wärtsilä uses electricity in its manufacturing operations – for example, in machining components – and in service workshops and offices. Both the electrical and the heat energy generated during engine test runs can be utilised. Wärtsilä's aim is to use the electrical energy for its own purposes while also selling part of this electrical energy to a local power company. Due to the

nature of engine test runs, the production of electricity and the company's electricity demand are not equivalent; this allows the surplus energy to be sold to a local power company.

Heat

Heating for factories and offices accounts for most of Wärtsilä's consumption of heat energy. In several factories the heat generated in engine test runs is used for heating. Some factories and offices are connected to a local district heating network, some have their own heating plant, and some use electricity for heating.

■ Water

The water consumed by Wärtsilä can be divided into two categories: domestic use and cooling use. Domestic water is used mainly for sanitary purposes and by industrial equipment such as machine tools and washing machines. Some factories also use domestic water to produce moulds. Heat emissions into water systems arise from engine cooling and process cooling water. Wärtsilä companies use water from the local watercourse for their engine and process cooling needs. In such cases, the cooling water system is kept separate so that only heat is released into the natural water system. Wastewater is sewered and piped to the local wastewater treatment plant. If effluent is not suitable for sewage treatment, it is taken away for appropriate processing, for example to a special treatment plant for hazardous wastes.

■ Emissions to the air

The primary source of manufacturing noise is engine test runs and ventilation machinery on factory roofs. This noise is mostly low frequency and is therefore not easily detected by the human ear. Wärtsilä has specifically addressed the issue of noise protection using technical means and has succeeded

Investment in energy efficiency



In line with its commitment to energy efficiency, Wärtsilä has invested 2.5 MEUR in improving the existing energy recovery system at the Delivery Centre Vaasa facilities. The new system allows part of the fuel energy used for test runs of various types of gensets to be recovered. This will reduce the primary energy consumption of the unit significantly. The new system will be taken into use in mid 2009.

Wärtsilä's Delivery Centre Vaasa and Engine Laboratory have applied its energy recovery from engine test runs since 1987. The system includes various elements that enable heat and electricity generated by the engine test runs to be further utilised. During the years 1998–2007 the system has recovered more than 138 GWh of energy.

in lowering noise levels considerably. However, noise abatement is a continuous need and requires regular monitoring.

Air emissions are mainly caused by test runs and the painting of completed engines or other Wärtsilä products. Test run emissions consist of nitrogen oxides (NO_x), sulphur dioxide (SO₂), carbon dioxides (CO₂) and particles, as well as small amounts of other emission components. The painting of engines and other Wärtsilä products generates VOC (volatile organic compounds) emissions.

In addition of direct CO₂ emissions, Wärtsilä's operations generate indirect CO₂ emissions. In 2008 the calculated secondary CO₂ emissions were 54,112 tons (from purchased electricity and heat).

Monitoring environmental impacts

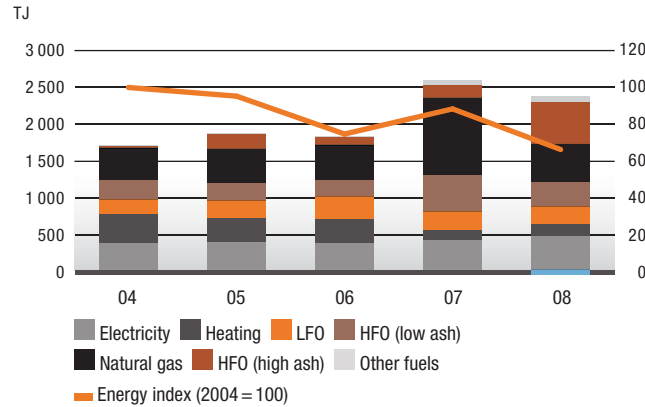
Within Wärtsilä, environmental impacts caused by operational activities are monitored as follows:

- Participation in the monitoring of air quality with other local stakeholders
- Measurement of air emissions
- Charting of noise levels
- Periodical effluent analysis
- Soil analysis
- Dispersion analyses and bio-indicator surveys

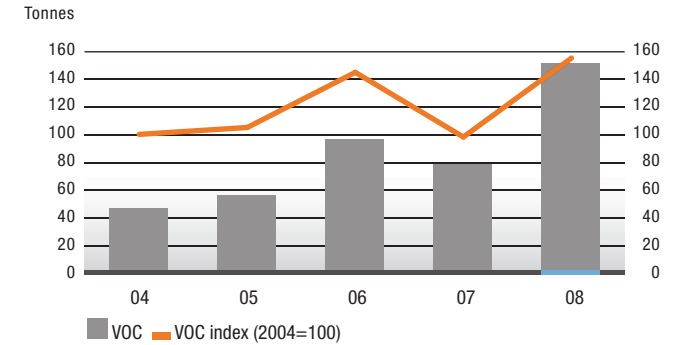
Compliance with legislation

Wärtsilä companies comply with the local environmental legislation. The operations of Wärtsilä's manufacturing companies require a valid environmental permit. Wärtsilä companies have the required environmental permits, the terms of which are generally met. Incidents of non-compliance are described in the following chapters.

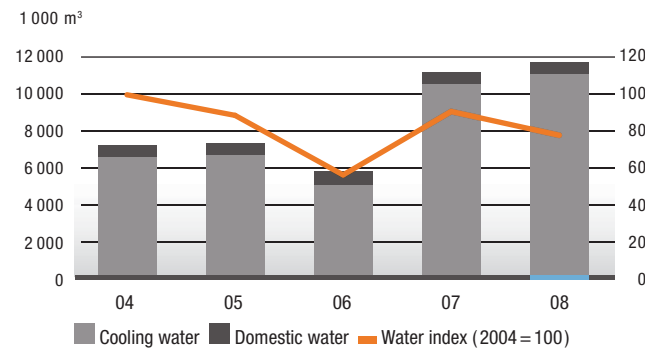
Annual energy consumption



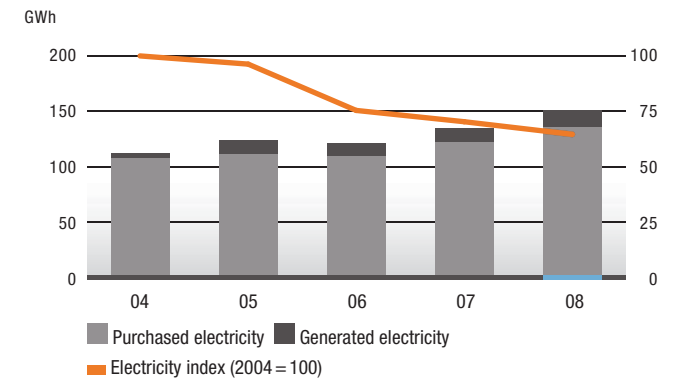
Annual VOC emissions



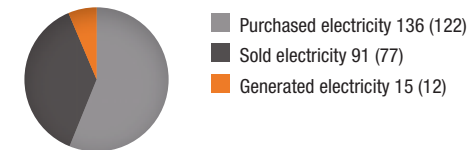
Annual water consumption



Annual electricity consumption



Electricity balance 2008 in GWh



Environmental disturbances and complaints

The number of disturbances, complaints and incidents of non-compliance are presented in the figure. Reported disturbances cover incidents in which the Wärtsilä company concerned has usually been obliged to report the disturbance to the authorities. The following main environmental disturbances occurred at Wärtsilä's business locations in 2008:

- 1 water-emulsion fuel oil leak
- 1 oil leak
- 1 crucible crack

All the above disturbances were investigated and appropriate corrective action was taken in each case.

The complaints made by occupants of neighbouring sites were mainly related to noise, odours and smoke. All complaints were investigated and appropriate corrective action was taken wherever necessary.

Engine testing increases the operational emissions, but reduces significantly the life cycle environmental impacts of our products.

Cases of non-compliance

Wärtsilä France S.A. had one non-compliance case related to new water regulations concerning surface treatment. The non-compliance cases of Wärtsilä Danmark A/S were related to malfunction of wastewater treatment plant and exceeded level of heavy metals in waste water. Wärtsilä Iberica S.A. had two non-compliance cases, one related to cooling water quality and

the other to lacking of dosing pump in cooling tower system. Wärtsilä Propulsion Wuxi Ltd. applied late for final Environmental Verification required by local regulations. In Wärtsilä Singapore Ltd. non-compliance case was related to the inadequate protection of work areas from mosquitos. Corrective actions have been taken or will be taken in all companies.

Non-compliance cases presented in previous reports

Wärtsilä Guatemala S.A. conducted modifications to its drainage system, as well as water analysis and technical study in 2008. The technical study is finalised during the first quarter of 2009 and it will indicate the actions to be taken. Wärtsilä Iberica S.A. has taken the necessary corrective actions and is waiting for the technical certificates from the authorities. Wärtsilä India Ltd. has completed corrective actions on all important aspects. Local regulatory authority has found compliance with overall environmental aspects. Further improvements will be implemented, if considered appropriate.

Waste management

Manufacturing activities cause various wastes. These are divided into two main categories: hazardous and non-hazardous. Hazardous wastes include cutting fluids, various types of waste oil, paints and solvents, oily wastes and solid wastes etc. Hazardous wastes are taken to a hazardous waste disposal facility for appropriate treatment. All Wärtsilä companies sort their waste according to local municipal regulations. However, generally speaking the main sorting categories are: waste to be incinerated, crude waste for landfills, clean cardboard, and waste paper. Waste wood, scrap metal and metal swarf are collected separately. Only coarse waste and in some cases waste wood are removed for landfill disposal. Other wastes are used either as raw materials or for energy.

Waste management in Wärtsilä has four aims:

- To reduce the amount of the waste generated in processes
- To use the waste as a material
- To use the waste as energy
- To dispose of the waste in an environmentally sound way

Environmental costs

Concerning Wärtsilä's operations, we have defined expenditures as environmental expenditures if they are related to soil, water and air pollution control, waste management, environmental management or noise control.

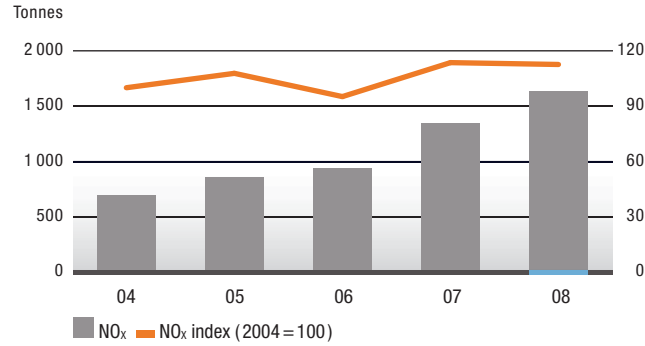
Wärtsilä real estate and environmental responsibilities

The real estate that Wärtsilä owns or leases is mainly located in urban areas. The company is not aware of any properties that are situated in areas where biodiversity could be endangered. Environmental risks and liabilities are identified and reviewed as a part of overall risk management. In Wärtsilä's operations, potential liabilities are primarily related to the company's real estate. Environmental liabilities are systematically scrutinised in conjunction with every acquisition or sale of real estate. Wärtsilä has recognised certain cases where potential environmental liabilities may exist but these are not expected to have a significant financial impact on Wärtsilä. ■

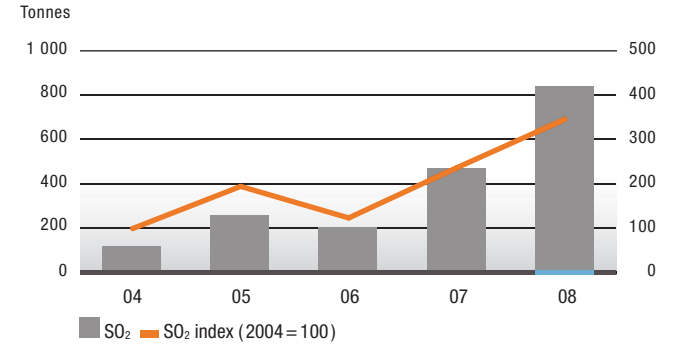
Environmental capital expenditures and operating expenses

MEUR	2008	2007	2006	2005	2004
Environmental capital expenditures	2.6	2.5	1.8	2.5	2.8
Environmental operating expenditures	5.4	4.1	3.5	3.0	2.8

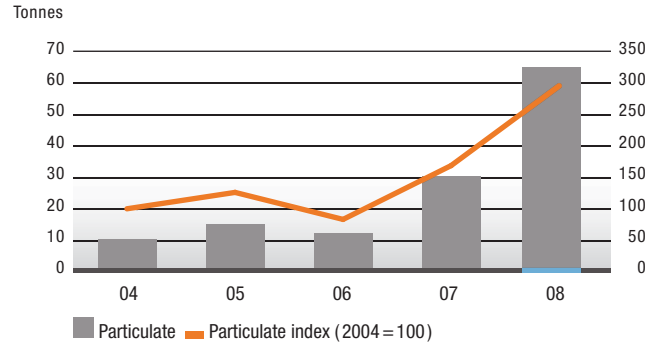
Annual NO_x emissions



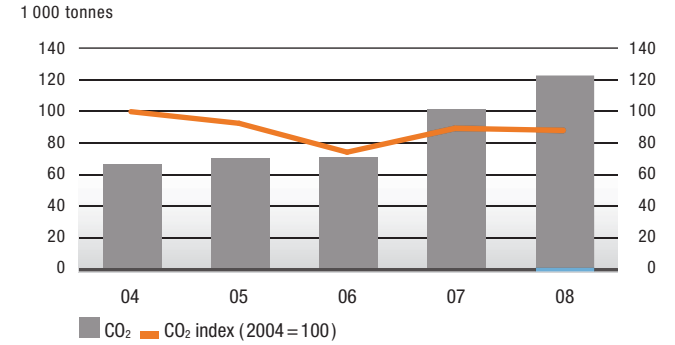
Annual SO₂ emissions



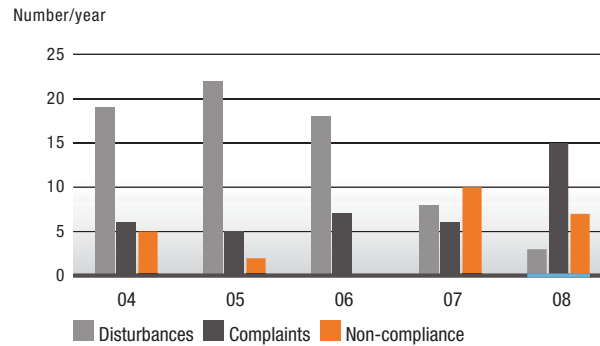
Annual particulate emissions



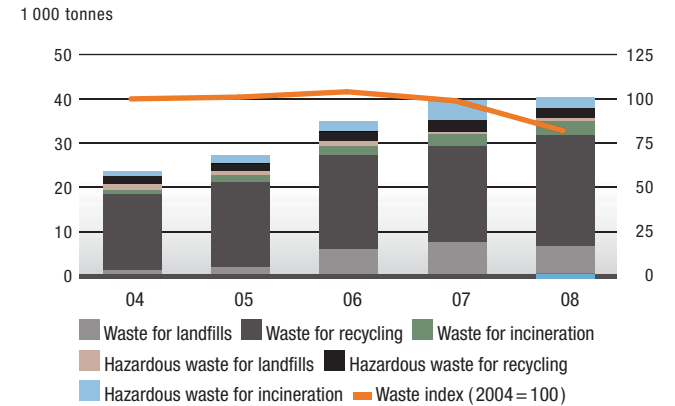
Annual CO₂ emissions



Disturbances, complaints and non-compliance



Annual waste



PERSONNEL AND SOCIAL PERFORMANCE

The social responsibility targets of Wärtsilä's strategy indicate the key areas of Wärtsilä social responsibility. Wärtsilä's intention is to act as a good corporate citizen, to offer interesting, motivating and safe jobs to its employees, to develop its employees' professional skills and to improve supply chain management.

Good corporate citizenship is accomplished through open communication and good relationships with relevant stakeholders. Wärtsilä's operations and relations with its stakeholders are based on the company's Code of Conduct, with which each Wärtsilä employee is required to comply.

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

The company also endeavours, by applying high standards of occupational health and safety, to offer hazard-free workplaces to its employees, contractors, and others working in different parts of the corporation.

The Group applies only such product development and manufacturing processes, and quality assurance methods that mini-

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

■ Personnel

The growth of Wärtsilä workforce continued strongly in 2008. The number of personnel increased by 2,476 new employees. As a result of organic growth the number of personnel increased by 2,044 and as a result of acquisitions by 432. In addition to direct employment, Wärtsilä also employed indirectly an external workforce totalling 1,730 man-years in subcontracting in its factories and units. The largest increase in personnel took place in the Services business. Geographically, the number of employees grew

Implementation of social responsibility targets approved by Wärtsilä's Board of Management

Target	Status
Defining guideline for Corporate Equal Opportunities.	The target is scheduled for 2009.
95% of key suppliers covered in the supplier ratings by 2010. All of these suppliers should reach Wärtsilä approval and 50% of those should reach the highest approval level.	The target is scheduled for 2010. Supplier ratings are monitored by Wärtsilä Supply Management.
Development discussion coverage 100% by the end of 2009.	The target is scheduled for 2009.
EHS management systems implemented in subsidiaries.	New management system rules defined. Subsidiaries have defined actions plans for the implementation.
Long-term goal for zero lost time injuries.	The planning phase is completed. Injuries are monitored on monthly basis. Subsidiaries have defined action plans for the target, which will be monitored.
Work safety card for all Field Service employees.	Wärtsilä Land & Sea Academy has acquired qualifications for the Safety Card trainings. The first training courses have been conducted.



most of all in Europe and the Asia-Pacific countries. The increase in the units in Finland during the year was 346 employees.

In most European countries all Wärtsilä employees are covered by collective bargaining agreements. The number of employees belonging to a trade union varies between 70% and 100%. These figures vary considerably in countries outside Europe and therefore any average figure for the Group as a whole would not reflect the real situation.

People management in 2008

The goal of Wärtsilä's human resources strategy is to support implementation of the company's business targets by ensuring that the businesses have the requisite skilled and motivated

people at their disposal. In other words: continuous competence development, performance based rewarding, ensuring that the right people are in the right places, and strengthening leadership and management competencies in the organisation.

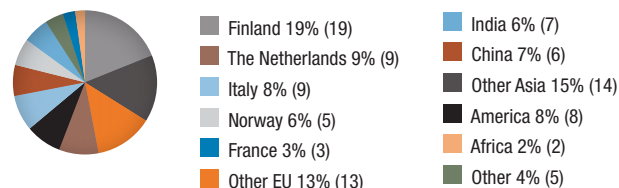
Continuous development of skills, performance management, feedback, and motivating remuneration are central to Wärtsilä's human resources strategy and basic requirements of good business performance in a global operating environment. Resourcing and Performance management and development processes have been a major focus area at Wärtsilä during 2008. Common core people management processes and corporate development are further promoted by harmonising and enhancing common ways of working across national and

organisation boundaries. Ongoing process of developing a single organisational culture, and a uniform internal and external corporate image, is on a good track in Wärtsilä. We want to gain true employee engagement through a culture of open communication, integrity and innovation.

Strong focus on efficient induction and development of leadership skills

During 2008 Wärtsilä gave particular emphasis to effective induction programmes for the new employees, and to new leadership development programs. Due to active hiring, welcoming newcomers to the organisation has been one main activity area for both global and local training and development teams.

Personnel by country



Number of training days during the first year of employment is followed among other HR KPIs. Wärtsilä has renewed its global management and leadership programs during the year 2008. The first implementation of executive development program was in November and three new global programs for senior managers have been designed and will be delivered during 2009. Number of managerial training days is also followed regularly as one of the HR KPI.

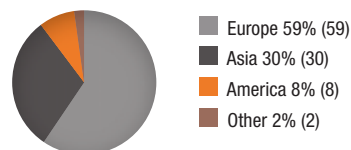
Learning at work, mentoring, and job assignments designed to enable the transfer of competence and skills from experienced to younger employees, are enhancements to the traditional professional and general training programmes produced by Wärtsilä's global training network.

Critical success factors for Wärtsilä are having the correct competences at the right time, and the ability to adjust to continuous change in the business environment. Employees are given training all the time at all organisational levels: from induction training for new employees, to training for the company's top executives. Wärtsilä employees attend on average 3.3 training days a year. The number of training days, which is altogether 58,288, indicates the broad scope of this function. Most of the training events are tailored to the specific needs of departments.

Common processes and tools for people management

During 2008, Wärtsilä further developed its core people management processes, and increased the efficiency of the tools needed by managers and employees to deploy the processes. The annual development discussion is the core vehicle for performance management within Wärtsilä. The discussions are used to agree on personal targets, to assess the achievement of these targets, and to plan and agree on any development action necessary. We have also defined what our values Energy, Excitement and Excellence mean in practise and as behaviours. These issues will also be assessed in development discussions in 2009.

Personnel by market area



Each Wärtsilä employee needs to know and understand Wärtsilä's business strategy and its goals, and more importantly, to know the targets set for their own units and the main target areas related to their own work.

Positive trend in job satisfaction continued

Wärtsilä conducted a Group-wide employee satisfaction survey in September 2008, receiving feedback from 64.4% of our employees globally. Employee satisfaction has improved in all the areas measured by the survey. The results indicate greater satisfaction in all dimensions, than in the previous survey. The improvements are especially good in areas of organising work, team work, feedback, and rewarding.

Wärtsilä's global employee satisfaction survey results also show that Wärtsilä employees have a strong belief in the future success of Wärtsilä. More than 80% of the respondents would recommend Wärtsilä as an employer also to their friends. This subsequently reflects a high level of commitment to the company, its strategy, targets and values.

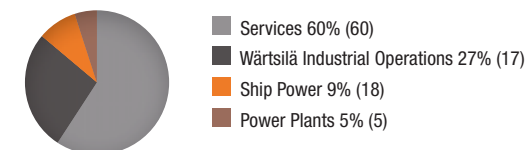
The survey measured for the first time the corporate responsibility and code of conduct related performance. According to responses of Wärtsilä employees the company is acting in a responsible way and at individual level the Code of Conduct is followed.

Challenges for personnel management and priorities in 2009

Excellence in resourcing and recruiting continues to be the focus in 2009. Wärtsilä wants to be seen as a potential and attractive employer, both for newly graduated and experienced professionals, while at the same time offering opportunities for personal development and career development to those already working in the company.

Leadership competence development is one of the key development targets in all areas. Additionally, high prior-

Personnel by business



ity is given to well implemented and deployed performance management processes, including quality in target setting, performance coaching, regular performance and achievement reviews, and the rewarding of good and excellent performance.

Employee practices

Employee benefits and remuneration

In general, temporary and part time employees are offered the same benefits as permanent employees. In some countries eligibility is linked to the months or years of service – such differences being typically based on collective agreements according to local legislation.

Individual salaries are reviewed once a year in connection with the performance review and in the framework of annual salary increase guidance. The company may pay employees an annual bonus in accordance with company rules and based on separate bonus contracts. The financial performance is assessed and the bonus determined once a year. Employees may be paid a spot bonus based on exceptional performance. Benefits, such as a company car, service year awards, and well-being, fitness and health services, are planned and implemented locally taking into account both company guidelines and local market practices.

The basic principle for remuneration in the company is to pay the same wage for the same job and the same performance. The salary is meant to be just, fair, and encouraging. Differences in individual salaries are based on how demanding the job is, on differences between competence and performance, and not on gender.

Minimum notice period

In the case of occurrences having significant business or social implications, such as personnel dismissals, the transfer in full or

part of production facility location, structural changes, etc., as well as transnational effects, the EWC Working Committee and/or local employee representatives are consulted before decisions about such matters are made, or if that is not possible, as soon as possible. The objective is to inform at the time of planning any significant operational change.

Wärtsilä applies European Union directives, local acts of co-operation in the companies and corporations, collective agreements, and equivalent regulations concerning consultation and local bargaining.

Competence Management process

Wärtsilä's Competence Management process is an effective and structured way to carry out long-term competence development plans within our business functions. In order to know where to focus our competence development actions, we need to recognise the required competencies that are critical to the success of our company today and in the future. Through the same process, we are able to identify both the short- and long-term individual competence development needs. Competence assessment of our personnel and comparison with competence targets allows us to analyse competence gaps.

All training and development activities in Wärtsilä strive to develop, maintain and renew the skills and competencies required to fulfil our strategy. Having the right competencies available at the right time, and being able to continuously adapt to a changing business environment, are critical success factors for Wärtsilä.

The training responsibilities divided within Wärtsilä are:

■ **Corporate Training & Development** defines and communicates training strategy for Wärtsilä, and designs and delivers the corporate management & leadership programmes. The Corporate Training team also supports the local HR training departments and maintains a network of competent trainers.

■ **Businesses** are accountable for defining their business specific strategic competencies, and for developing appropriate training programmes.

■ **Local Training & Development:** The local HR departments support the delivery of learning solution programmes.

Performance Management process

The Performance Management process supports Wärtsilä in reaching its business targets by translating business strategies to people management actions and individual objectives. Development discussions with individuals or teams are done at least once a year. The target for annual development discussion compliance is 100% by the end of 2009.

Consulting and informing in Group companies

Wärtsilä's procedures for consulting and informing within the Group are arranged in each country according to local legislation. Wärtsilä's Code of Conduct calls for ongoing and open dialogue between the company's management and employee representatives through co-determination bodies, and employees are kept informed of both the Group's situation and that of their particular company. Company management and personnel engage in open discussion also in those countries where there are no formal co-determination bodies as such. Regular briefings for personnel are an integral part of the operating procedures of Wärtsilä companies. Employee participation in decision-making also extends to occupational health and safety (OHS). Most Wärtsilä units have an OHS committee with representatives from all personnel groups.

In addition to Wärtsilä's procedures for consulting and informing employees at the local level, the European Works Council (EWC) handles issues that affect the Group as a whole. The EWC and its working committee play an active role in considering and pursuing corporate level issues. In order to

Future talents



In order to ensure the availability of future leadership and functional expertise, Wärtsilä organises top international graduate programmes in finance, R&D and information management. The programmes are an integral part of Wärtsilä's Talent Management framework.

Wärtsilä top graduate programmes offer a flying start for a career in a large global company. These international trainee programmes run for 12 months and allow a group of young professionals to work in different units and countries, and to experience diverse work cultures. During this training, participants undertake various projects and are involved in real cases throughout the organisation. The programme also includes extensive training periods covering not only functional subject matters, but also courses related to leadership, change management and strategic thinking.

Upon completion, the participants will have gained broad experience and knowledge of management and functional expertise, as well as a solid understanding of international engineering business logic – an invaluable basis for their future careers with Wärtsilä.

enhance the understanding of Wärtsilä operations in Asia and especially in China, Wärtsilä EWC working committee, complemented with some other employee representatives, made a trip to China in May 2008. The working committee visited several Wärtsilä units, couple of peer companies and one of the largest shipyards of the World. Experiences and learning from the visits were shared in the annual EWC corporate council meeting and in the local works council meetings.

Dialogue at the individual level is conducted through development discussions, which are held annually. The subjects dealt with in these discussions range from the Group's and business unit's targets, to the individual's job description, competence development, career alternatives, personal targets and feedback. Development discussions are by definition held with all employees.

Employees are able to have a direct impact on the company's operations and their development by making suggestions. Each Wärtsilä employee can offer suggestions for improvement in operations through either the continuous improvement process (CIP) or by submitting private initiatives. CIP-proposals are discussed jointly and need a common decision to be put into effect. Private initiatives are evaluated by experts within the company and, if found to be feasible, are put into effect.

The contents of development discussions

1. Clear job description
2. Target setting and result review
3. Feedback/performance assessment
4. Individual development plan

Wärtsilä encourages its employees to be innovative by granting an annual Technology and Innovation Award, either to an individual or to a team, for the best technical innovation of the year. The award criteria are that the invention must be innovative, environmentally sound, represent leading technology, improve a product or process, and offer potential for cost savings. Wärtsilä also grants annually a Customer Care Award for a team or individual who actively participated in initiatives leading to development of business operations, quality improvements in how we serve and partner with customers, customer satisfaction or Wärtsilä values demonstration.

■ Occupational health and safety

Wärtsilä's occupational health and safety principles are defined in the company's QHSE policy and directive on occupational health and safety (OHS). Wärtsilä's subsidiaries must have a management system in use that conforms to the QHSE policy and OHS directive. The main aspects in the management system relate to compliance with legislation, identifying and minimising occupational health and safety risks, personnel training, providing written instructions, the use of protective equipment, and continuous improvement of OHS performance.

The objective of Wärtsilä's QHSE policy is to prevent and manage health and safety risks to personnel and stakeholders. In addition to the management system, Wärtsilä companies apply OHS programmes required by local legislation, which are normally implemented in OHS committees consisting of representatives of the companies' management and personnel. Accidents are recorded and investigated in the manner required by local legislation. Altogether 68% of Wärtsilä companies have an occupational health and safety committee. The indicators used to measure occupational health and safety performance include the number of accidents, the amount of absence due to sickness and the frequency of accidents. There were no fatal inju-

ries in Wärtsilä's units during the review period. There were 2 minor non-compliance cases during the reporting period. Wärtsilä Australia Pty Ltd. was fined EUR 911 for missing procedures for confined space. The procedures have been since developed and implemented. Wärtsilä North America Inc. was fined EUR 781 by US OSHA for employees boarding a ship, crossing a gangway without proper safety railings.

To emphasise the importance of employee safety, Wärtsilä set a corporate level target for zero lost time injuries. This target is a long-term commitment from the company to strengthen the safety culture and requires actions from all Wärtsilä companies and employees. The safety performance of the companies is followed on monthly basis.

■ Human rights

Wärtsilä supports and respects basic human values as outlined in the UN's Universal Declaration of Human Rights.

Wärtsilä's employees represent 111 different nationalities, and the company supports equal treatment of all its employees irrespective of race, colour, nationality, gender, age or religion. The company's employees are selected on their qualification and competence for each specific job. Programmes and instructions related to promoting equal rights are applied in the subsidiaries.

Wärtsilä supports the work-related rights defined by the International Labour Organization (ILO) and therefore works to ensure there is freedom of association and the right to collective bargaining in the company. In those countries where local legislation does not recognise these rights, Wärtsilä endeavours to give employees other channels for expressing their opinions.

Wärtsilä does not accept the use of forced labour or child labour in any form. Wärtsilä is unaware of any cases of breach of human rights, discrimination, infringements of rights at work, or the use of forced or child labour. Wärtsilä Danmark A/S was fined EUR 660 for wrongful dismissal.

Personnel in figures 2008

Number of employees at 31 Dec. 2008		18 812
Number of nationalities		111
Change in number of employees (net employment creation)		2 044
Average age of employees	years	38
Male/female ratio	%	86/14
Employee turnover (resigned)	%	10.2
Total payroll costs	MEUR	693
Aggregate coverage of different bonus schemes	%	60
Development discussions held annually	%	66.7

Number of employees per business

	No. of employees	Change
Services	11 011	1 448
Ship Power	1 601	-1 339
Power Plants	904	78
Industrial Operations	4 883	2 241
Other	413	48

Training days

Days/employee	2008	2007	2006	2005	2004
Managers and superiors	2.7	5.3	3.3	3.0	2.5
Other white-collar employees	3.3	2.9	3.9	3.3	2.9
Blue-collar employees	3.5	2.8	2.4	2.3	3.3

Since Wärtsilä expects its partners and suppliers to act in compliance with its Code of Conduct, similar measures will also apply to them. The company sets common requirements for its suppliers and regularly monitors conformance with these requirements through numerous performance indicators and audits. All the company's main suppliers are required to comply with Wärtsilä's requirements in order to gain approved supplier status. Wärtsilä assesses all companies in conjunction with mergers and acquisitions. The integral part of these due diligence assessments is compliance with relevant legislation.

■ Security practices

Wärtsilä has a security policy and guidelines, which incorporate human rights considerations and international best practices. The policy is also applied to third party organisations. The security personnel of Wärtsilä have been trained according to our policy and guidelines. Our Security Manager is a member of the board of ASIS Finland.

■ Impact on communities

The guiding principle of Wärtsilä's Code of Conduct is to promote openness and good interaction with its stakeholders locally. This applies as much to the families of personnel, our neighbours, educational institutions and the media, as to local authorities and officials. The methods used towards this end include Open Door days, press briefings, and different modes of communication for different target groups. Measures to evaluate the impacts on local communities in conjunction with operational changes of Wärtsilä subsidiaries are determined case by case. Wärtsilä's activities for charitable purposes are described in the Economic Performance section of this report.

DOER

Our target: maximal safety – zero lost time injuries

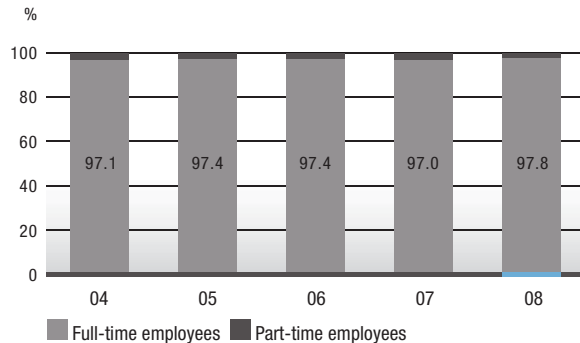


Employee safety is one of the key topics for Wärtsilä. Injuries can be avoided by complying with safety regulations and by having the right attitude to safety issues. To emphasise the importance of employee safety, Wärtsilä Board of Management has set a corporate level target for zero lost time injuries, as part of the sustainability programme.

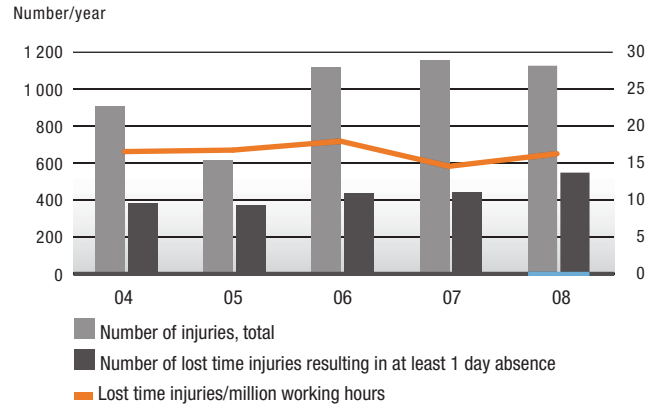
"This long-term commitment involves all of our companies and employees – we are all accountable for reaching this target," says Zero Injury Project Manager Guido Barbazza. The short-time focus of the project is on taking the best practices in use, monthly monitoring of performance and the strengthening of the safety culture.

WARTSILA.COM/CAREERS

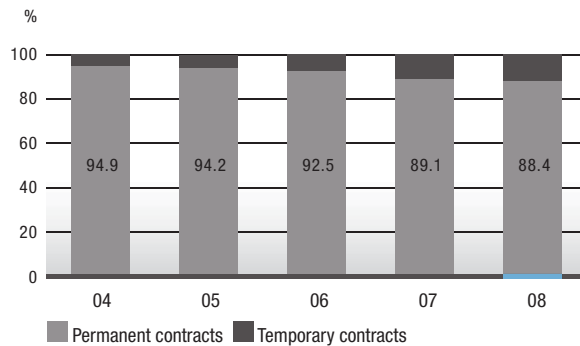
Full-time/part-time employees



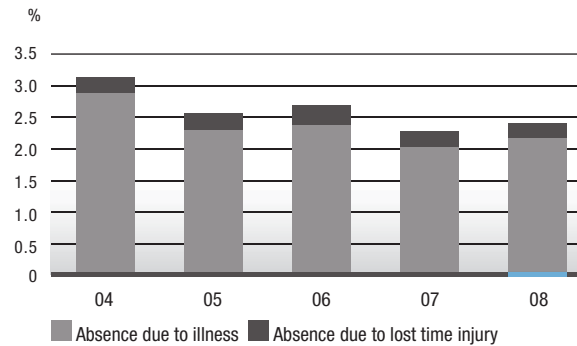
Injuries



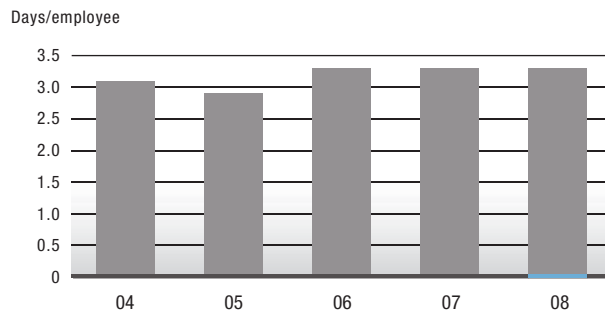
Permanent/temporary employees



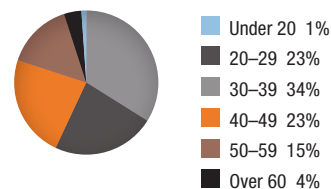
Absence rate



Training days



Age structure



Suppliers

Wärtsilä has defined its processes for choosing suppliers, determining their requirements and developing the supply relationship. Wärtsilä offers its suppliers a partnership that strengthens the competitiveness of both parties. A precondition of this partnership is open and continuous dialogue. Partnership thinking is also applied in Wärtsilä's research and development activities, where the company often collaborates with universities and key suppliers.

Wärtsilä assesses and manages its suppliers through its Supplier Management System. Wärtsilä regularly conducts supplier evaluations. These are divided into three categories: pre-assessment, auditing, and performance review. A pre-assessment is made of potential new suppliers before the supplier relationship begins. Audits are conducted on new suppliers and on suppliers whose performance does not meet Wärtsilä's requirements. Performance reviews are performed to solve a single deviation from requirements. In the assessment of a supplier, Wärtsilä focuses on several critical indicators, where Wärtsilä expect the supplier to have high standards and performance: compliance with relevant legislation, environmental, occupational health and safety and quality management, process mapping and quality plans and social performance. In 2008 Wärtsilä rated 130 of its key suppliers and conducted 60 supplier evaluations.

Wärtsilä Supplier Development activities are currently being implemented globally. By using the Supplier Development Toolbox, we will improve our supplier's quality and delivery reliability level to all our business units. The most important tool in the toolbox is the utilisation of the Part Quality Assurance Plan. The purpose of the part quality assurance is to make sure that the supplier is able to produce the intended parts in a rational and efficient way. The quality assurance activities will also ensure that the parts are made according to

the technical specification defined in the order, and that the parts meet the quality criteria.

■ Preventing corruption and bribery

Wärtsilä's Code of Business Conduct and the Broker Directives expressly prohibit the company and its employees from accepting or offering any kind of benefit considered to be a bribe, and from actions that could give rise to a conflict of interest or breach of loyalty. Because of this, without a specific consent, business gifts of nominal value only may be given or accepted. The instructions make it compulsory to comply with local anti-bribery provisions and internationally recognised anti-corruption and anti-bribery principles, and to report any cases of bribery. The company renders extensive training for its personnel, particularly the sales organisation, on anti-corruption principles and the relevant instructions. There were no corruption or bribery cases during the review period.

■ Political lobbying

Wärtsilä's policy is to engage in open dialogue and discussion with both local and international public authorities and officials. An important area of co-operation in this forum is the reduction of emissions from energy production. Stakeholder co-operation with public bodies is a part of Wärtsilä's business operations and not a political activity.

■ Competition regulations

Wärtsilä has a compliance programme for managing risks relating to competition law, and the company's corporate management is strongly committed to implementing this programme. Wärtsilä's various subsidiaries conducted reviews of compliance with competition regulations when formulating the programme and during the course of mergers and acquisitions.

No infringements of competition regulations were identified. The programme documentation includes a manual of competition

law, which provides information about competition regulations and instructions for the company's internal procedures. Wärtsilä has also arranged training in competition law for key personnel.

■ Product liability

Wärtsilä's occupational health and safety policy defines procedures for ensuring product safety. Further information about issues relating to product safety is given in the Wärtsilä and Sustainability section. During the review period, no instances of non-compliance related to social performance were identified.

■ Customer satisfaction

Wärtsilä continuously develops and deepens relations with its customers. Wärtsilä supports its customers in the design, startup and operation of the equipment and systems it delivers, as the requirements of each customer dictate. Dialogue with customers is vital to developing operations, products and services.

In its most important market areas, Wärtsilä arranges Customer Days for existing and potential customers. These days are used to review subjects of topical interest and to discuss existing and future needs and challenges. In 2008 Power Plants business arranged and participated in 75 events, exhibitions and seminars with more than 4,700 participants. In 2008 Ship Power organised and attended more than 100 international and national maritime seminars, conferences and exhibitions worldwide. These events were visited by thousands of ship owners, ship operators, yards representatives and other target audience such as naval architects, suppliers, students etc.

Wärtsilä uses a Customer Relationship On-Line (CROL®) process for measuring the company's sales, delivery and service performance in individual projects and customer relationships. The system requires Wärtsilä to make a self-assessment with the same questions as given to customers, thereby enabling a comparison with feedback from customers. This high-

lights actions necessary to rectify any issues during the customer relationship life cycle. Low customer feedback triggers automatic corrective actions requests. The customer responsible persons are responsible for documenting and carrying out corrective actions, as well as for communicating these to the customers. In addition, Industrial Operations, the Product Companies and Business Process Management are responsible for taking action regarding feedback that is directly related to their activities. The status and effects of the corrective actions is followed up by upper management on a quarterly basis.

Wärtsilä measures its performance using a questionnaire in which customers are asked to comment on statements related to the quality of Wärtsilä products and solutions, the organisation and the professional competence of Wärtsilä employees. The assessment has a scale of 1–10, the highest grade being 10. ■

The average results for the customer satisfaction survey

	2008	2007	2006	2005	2004
Ship Power	7.4	7.5	7.4	7.2	7.5
Services	7.8	7.7	7.6	7.7	7.8
Power Plants	8.3	8.1	7.9	8.1	8.0
Sample	2 204	1 575	1 477	1 167	

The Customer Opinions collected 2008 has resulted in over 400 project/customer specific action plans, which the Wärtsilä representatives are working on.

Report scope

Wärtsilä's Sustainability Reporting 2008 is prepared according to the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines (G3).

Wärtsilä reports those core indicators which are of most relevance to its operations, products and stakeholders. The Sustainability section of the Annual Report examines the company's economic, environmental and social performance. The core indicators chosen are of importance at the corporate level and are based on the core indicators of the G3 guidelines. The reporting of product performance, which is done mainly on the internet (www.wartsila.com), describes the environmental aspects and impacts of Wärtsilä's products, the measures taken by Wärtsilä to reduce these impacts, and the environmentally advanced solutions that Wärtsilä has developed.

■ Coverage of the report

This report covers Wärtsilä's businesses. At the company level the report includes the parent company and its subsidiaries as well as its manufacturing, service and sales units. The report excludes Wärtsilä's associated companies, joint ventures and supply chain companies.

Wärtsilä's businesses comprise the Group's Ship Power, Power Plants and Services businesses and its Industrial Operations. The first three of these generate external net sales while the fourth is an internal function.

The economic performance data covers all Wärtsilä companies. The data on environmental and social performance covers all Wärtsilä companies except the following:

- Whessoe S.A., Whessoe Total Automation Ltd.
- Wärtsilä Automation Services, France S.A.S.
- Wärtsilä Norway Ålesund A/S, Vik-Sandvik A/S, Vik-Sandvik Poland Sp.z.o.o., Conan Wu & Associates Pte Ltd.
- Claus D. Christophel Mess- und Regeltechnik GmbH

- Wärtsilä Tanzania Ltd., Wärtsilä Central Africa Ltd.
- Wärtsilä-CME Zhenjiang Propeller Company Ltd.

These companies will be included in Wärtsilä's sustainable development reporting in the forthcoming years. Wärtsilä's Sustainability Reporting is an integrated part of its Annual Reporting and therefore Wärtsilä publishes its Sustainability data annually.

■ Significant changes in Group structure

The structural changes that apply to the Power Businesses are described in the Business review. They relate mainly to development of the Ship Power and Services businesses.

Coverage of operational data

Operational data	% of Wärtsilä companies					% of personnel					% of product manufacturing				
	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
Economic	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Environmental	85	90	90	90	79	95	96	91	95	92	100	100	96	98	100
Social	85	90	90	90	79	95	96	91	95	92	100	100	96	98	100

Reporting profile

■ Data collection

The data on product environmental performance is based on measured test results. Performance data on the environmental and social aspects of sustainability has been collected from the Wärtsilä companies using a detailed questionnaire. Economic performance data is based mainly on audited financial accounts.

The sustainability data is collected and reported according to Wärtsilä's specific internal reporting guidelines that include all the definitions and instructions necessary for this purpose. Environmental expenditure and investments are reported applying the Eurostat instructions.

Each company has a nominated individual responsible for collection and consolidation of the data, and for its quality and reliability. The management of each company approves the data

before it is consolidated at Group level. The companies report their sustainability data using Wärtsilä's CSM reporting system. The reported data is checked at both local and Group levels before its consolidation.

The content of this Sustainability Report was reviewed and approved by Wärtsilä's Board of Management.

KPMG Oy Ab has independently assessed the completeness, accuracy and consistency of the data in the report. Site audits were carried out in Bermeo, Spain, and in Dubai, United Arab Emirates.


This report is a third party checked Application level of "A+" according to the GRI G3 guidelines.

■ Additional sources of information

Wärtsilä has previously published the following reports:

- Wärtsilä Environmental Report 2000
- Wärtsilä Sustainability Report 2002

- Wärtsilä Sustainability Report 2004
- Wärtsilä Sustainability Report 2005
- Wärtsilä Annual Report 2006
- Wärtsilä Annual Report 2007.

 These reports and their sustainability data are available on Wärtsilä's website: www.wartsila.com.

■ Sustainability Report Project Team

Göran Hellén Head of Emission Control and Combustion, Industrial Operations

Ari Suominen Director, Technology, Industrial Operations

Börje Fågelklo Director, Technology, Ship Power

Arnau Filancia Director, Marketing & Communications, Services

Tuija Lindroos Digital Media Manager

Joséphine Mickwitz Director, Investor Relations

Marko Vainikka General Manager, Sustainability

(contact person: marko.vainikka@wartsila.com)

Independent assurance report

■ To the Board of Management of Wärtsilä Oyj Abp

At the request of Wärtsilä Oyj Abp, we have reviewed the Sustainability Information Wärtsilä Oyj Abp presents in connection with the Wärtsilä Annual Report 2008. The Sustainability Information, including the identification of material issues, is the responsibility of and has been approved by the Board of Management of Wärtsilä Oyj Abp. The responsibility of KPMG is to issue an assurance report on the Information.

Context and scope

In the Sustainability Information, Wärtsilä Oyj Abp describes its efforts and progress in relation to sustainability. The Sustainability Information consists of economic, social and environmental data and statements for 2008 presented in the “Sustainability Review” of the Annual Report (pp. 54–86) as well as product performance data and statements for 2008 presented on selected and marked sections on Wärtsilä Oyj Abp’s web page at www.wartsila.com. The Wärtsilä Oyj Abp Sustainability Information has been prepared according to the Sustainability

Reporting Guidelines of the Global Reporting Initiative 3.0 (G3), as well as Wärtsilä Oyj Abp internal reporting guidelines.

Our engagement was designed to provide limited assurance on whether the data presented in the Sustainability Information are reliable and the information presented in the section is fairly stated.

Standards and criteria

We conducted our engagement in accordance with the International Standard for Assurance Engagements (ISAE 3000): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. Amongst others, this standard requires that the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the Sustainability Information, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence.

The evaluation criteria used for our assurance are the Sustainability Reporting Guidelines of the Global Reporting Initiative 3.0 (G3), as well as Wärtsilä Oyj Abp internal reporting guidelines.

Considerations and limitations

Sustainability data – including environmental and social performance data – are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data. It is important to view the performance data in the context of the explanatory information provided by Wärtsilä Oyj Abp.

To obtain a thorough understanding of the financial results and financial position of Wärtsilä Oyj Abp, the Wärtsilä audited Financial Statements for the year ended 31 December 2008 should be consulted.

Work undertaken and conclusions

We reviewed the reliability of the Sustainability Information on 2008 based on reviews of:

- the systems and processes used to generate, aggregate and report these data and information;
- internal documentation and control points for data flow;
- the data reported by all reporting organizations to corporate level;
- the calculations made at corporate level; and
- the data validation processes at corporate level.

To gain a deeper understanding on the reported Sustainability Information and related reporting processes, we have also conducted

- interviews with two members of the Board of Management; and
- site visits to reporting organizations in Bermeo, Spain and Dubai, United Arab Emirates.

Based on our work described above, nothing has come to our attention that causes us to believe that the Sustainability Information, based on the abovementioned criteria, is not fairly stated in all material respects.

Helsinki, 4 February 2009
KPMG OY AB

Pekka Pajamo
Authorized Public Accountant

Nina Killström
Advisor, Sustainability
Services

GRI content index

GRI content	Page	Remarks
Profile		
1 Strategy and Analysis		
1.1 CEO's statement	14 ●	
1.2 Key impacts, risks and opportunities	42–46, 56–61 ●	
2 Organisational Profile		
2.1 Name of the organisation	5–7 ●	
2.2 Primary brands, products and services	5–7, 16–28 ●	
2.3 Operational structure	5–7, 126 ●	
2.4 Location of organisation's headquarters	47 ●	Helsinki, Finland
2.5 Number of countries and location of operations	5–7, 126 ●	www.wartsila.com
2.6 Nature of ownership and legal form	47–51 ●	
2.7 Markets served	5–7, 16–18 ●	
2.8 Scale of the reporting organisation	5–7, 16–18 ●	
2.9 Significant changes	12, 95–97 ●	
2.10 Awards received in the reporting period	●	Not applicable
3 Report Parameters		
3.1 Reporting period	86 ●	
3.2 Date of most recent report	86 ●	
3.3 Reporting cycle	86 ●	
3.4 Contact point for questions regarding report	86 ●	
3.5 Process for defining report content	86 ●	
3.6 Boundary of the report	86 ●	
3.7 Limitations on the report's scope or boundary	86 ●	
3.8 Basis for reporting subsidiaries and joint ventures	86 ●	
3.9 Data measurement techniques and bases of calculations	86 ●	
3.10 Explanation of re-statements	86 ●	
3.11 Significant changes from previous reporting periods	86 ●	
3.13 Assurance policy and practice	86 ●	
4 Governance, Commitments and Engagement		
4.1 Governance structure	32–41 ●	
4.2 Position of the Chairman of the Board	32–41 ●	
4.3 Independence of the Board members	32–41 ●	
4.4 Mechanism for shareholder and employee consultation	32–41 ●	
4.5 Executive compensation and linkage to organisation's performance	32–41 ●	
4.6 Processes for avoiding conflicts of interest	32–41 ●	
4.7 Processes for determining expertise	32–41 ●	

GRI content	Page	Remarks
4.8 Implementation of mission and values statements; code of conduct	8–13, 56–61 ●	
4.9 Procedures of the Board for overseeing risk management	32–41 ●	
4.10 Processes for evaluating the Board's performance	32–41 ●	
4.11 Precautionary principle	42–46, 59, 70 ●	
4.12 Voluntary charters and other initiatives	8–13, 58 ●	
4.13 Memberships in associations	61 ●	
4.14 List of stakeholder groups	59–61 ●	
4.15 Identification and selection of stakeholders	59–61 ●	
4.16 Approaches to stakeholder engagement	59–61 ●	
4.17 Key topics raised through stakeholder engagement	59–61 ●	
5 Management Approach and Performance Indicators		
Economic Performance Indicators		
EC1 Direct economic value generated and distributed	62–65 ●	
EC2 Risks and opportunities due to climate change	42–46, 62–65 ●	
EC3 Coverage of defined benefit plan obligations	62–65 ●	
EC4 Significant subsidies received from government	62–65 ●	
EC5 Entry level wage compared to minimum wage	62–65 ●	
EC6 Spending on local suppliers	62–65 ●	
EC7 Local hiring	62–65 ●	
EC8 Infrastructure investments provided for public benefit	62–65 ●	
EC9 Significant indirect impacts	62–65, 83 ●	
Environmental		
EN1 Materials used by weight or volume	74–77 ●	Reporting system under development
EN2 Recycled materials used	74–77 ●	Reporting system under development
EN3 Direct energy consumption	74–77 ●	
EN4 Indirect energy consumption	74–77 ●	
EN5 Energy saved due to conservation and efficiency improvements	74 ●	
EN6 Initiatives to provide energy efficient or renewable energy based products and services	66–73 ●	www.wartsila.com/sustainability
EN7 Initiatives to reduce indirect energy consumption	●	
EN8 Total water withdrawal	74–77 ●	
EN9 Water sources significantly affected	74–77 ●	
EN10 Percentage and total volume of water recycled and reused	74–77 ●	
EN11 Location and size of land holdings in biodiversity-rich habitats	74–77 ●	
EN12 Description of significant impact of activities, products, and services on biodiversity	66–77 ●	Not applicable

GRI content	Page	Remarks
EN13 Habitats protected or restored	●	Not applicable
EN14 Managing impacts on biodiversity	●	Not applicable
EN15 Species with extinction risk with habitats in areas affected by operations	●	Not applicable
EN16 Total direct and indirect greenhouse gas emissions	74–77 ○	
EN17 Other relevant indirect greenhouse gas emissions	74–77 ○	Reporting system under development
EN18 Initiatives to reduce greenhouse gas emission	66–73 ●	www.wartsila.com/sustainability
EN19 Emissions of ozone-depleting substances	74–77 ○	Not applicable
EN20 NO _x , SO _x , and other significant air emissions	74–77 ●	
EN21 Total water discharge	74–77 ●	
EN22 Total amount of waste	74–77 ●	
EN23 Significant spills	74–77 ●	
EN24 Transported, imported, exported, or treated hazardous waste	●	Not applicable
EN25 Water bodies and habitats affected by discharges of water	●	Not applicable
EN26 Mitigating environmental impacts of products and services	19–29, 68–73 ●	www.wartsila.com/sustainability
EN27 Reclaimable products and reuse	Internet ○	www.wartsila.com/sustainability
EN28 Significant fines and sanctions for non-compliance with environmental regulations	74–77 ●	
EN29 Environmental impacts of transportation	●	
EN30 Total environmental protection expenditures and investments	74–77 ●	
Social		
LA1 Breakdown of workforce	78–85 ●	
LA2 Breakdown of employee turnover	78–85 ●	
LA3 Employee benefits	78–85 ●	
LA4 Coverage of collective bargaining agreements	78–85 ●	
LA5 Minimum notice period regarding operational changes	78–85 ●	
LA6 Representation in joint health and safety committees	78–85 ●	
LA7 Injury, lost time injury, fatalities, absence rates	78–85 ●	
LA8 Education and prevention programmes regarding serious diseases	78–85 ○	Part of OHS management systems, which cover Wärtsilä employees
LA9 Health and safety topics covered in formal agreements with trade unions	●	
LA10 Average training hours per year	78–85 ●	
LA11 Programmes for skills management	78–85 ●	
LA12 Employees receiving regular performance and career development reviews	78–85 ●	
LA13 Composition of governance bodies and breakdown of employees	39–41, 78–85 ●	
LA14 Ratio of basic salary of men to women by employee category	78–85 ●	

GRI content	Page	Remarks
Human rights		
HR1 Investment agreements that include human rights clauses	78–85 ●	
HR2 Suppliers and contractors that have undergone human rights screening	78–85 ●	
HR3 Human rights related training for employees	●	Part of Code of Conduct training
HR4 Incidents of discrimination and actions taken	78–85 ●	
HR5 Supporting right to freedom of association and collective bargaining in risk areas	78–85 ●	
HR6 Measures taken to eliminate child labour in risk areas	56–60, 78–85 ●	
HR7 Measures taken to eliminate forced labour in risk areas	56–60, 78–85 ●	
HR8 Human rights related training for security personnel	78–85 ●	
HR9 Incidents involving rights of indigenous people and actions taken	78–85 ●	
Society performance		
S01 Managing impacts of operations on communities	78–85 ●	
S02 Business units analysed for corruption risks	78–85 ●	
S03 Anti-corruption training	78–85 ●	
S04 Actions taken in response to incidents of corruption	78–85 ●	
S05 Public policy positions and participation in public policy development and lobbying	78–85 ●	
S06 Contributions to politicians and related institutions	78–85 ●	
S07 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	78–85 ●	
S08 Fines and sanctions for non-compliance with laws and regulations	78–85 ●	
Product responsibility		
PR1 Assessment of health and safety impacts of products	56–60 ●	
PR2 Non-compliance with regulations concerning health and safety impacts of products	78–85 ●	
PR3 Product information required by procedures	56–60 ●	
PR4 Non-compliance with regulations concerning product information and labelling	78–85 ●	
PR5 Customer satisfaction	78–85 ●	
PR6 Adherence to marketing communications laws, standards and voluntary codes	78–85 ●	
PR7 Non-compliance with marketing communications regulations and voluntary codes	78–85 ●	
PR8 Complaints regarding breaches of customer privacy	78–85 ●	
PR9 Fines for non-compliance concerning the provision and use of products and services	78–85 ●	

Core indicator Additional indicator Fully reported ● Partly reported ○ Not reported ○

FINANCIAL REVIEW 2008



Contents

90	Financial review
92	Five Years in Figures
94	Calculation of Financial Ratios
95	Review by the Board of Directors 2008
104	Consolidated Financial Statements
104	Income Statement
105	Balance Sheet
106	Cash Flow Statement
107	Statement of Changes in Shareholders' Equity
108	Accounting Principles for the Consolidated Accounts
112	Notes to the Consolidated Financial Statements
129	Parent Company Financial Statements
129	Income Statement
129	Balance Sheet
131	Cash Flow Statement
132	Accounting Principles for the Parent Company
133	Notes to the Parent Company Financial Statements
137	Proposal of the Board
138	Auditors' Report
139	Quarterly Figures 2007–2008
139	Information for Shareholders

Five Years in Figures

Five Years in Figures

MEUR		2008	2007	2006	2005	2004
Net sales		4 612	3 763	3 190	2 639	2 478
of which outside Finland	%	98.1	98.2	98.5	97.7	96.2
Exports from Finland		2 574	2 017	1 726	1 405	1 292
Personnel on average		17 623	15 337	13 264	12 049	12 361
of which in Finland		3 378	3 010	2 641	2 572	3 246
Order book, Power Businesses		6 883	6 308	4 439	2 906	1 855
From the income statement						
Depreciation and impairment		99	78	72	72	63
Share of profit of associates and joint ventures*		-	1	1	-	1
Operating result		525	380	263	225	113
as a percentage of net sales	%	11.4	10.1	8.2	8.5	4.6
Net financial items		-9	-8	-7	-23	-4
as a percentage of net sales	%	-0.2	-0.2	-0.2	-0.9	-0.2
Net income from investments available for sale		-	-	124	1	108
Share of profit of associates; Ovako*		-	-	67	10	-
Profit before taxes		516	372	447	212	217
as a percentage of net sales	%	11.2	9.9	14.0	8.0	8.8
Profit for the financial year		389	265	353	167	130
as a percentage of net sales	%	8.4	7.1	11.1	6.3	5.2
From the balance sheet						
Non-current assets		1 498	1 283	1 233	1 316	964
Current assets		3 245	2 466	1 955	1 553	1 433
Shareholders' equity attributable to equity holders of the parent		1 184	1 315	1 217	1 153	893
Minority interest		15	10	13	10	8
Interest-bearing liabilities		664	283	270	404	320
Non-interest-bearing liabilities		2 880	2 141	1 687	1 302	1 177
Balance sheet total		4 743	3 749	3 188	2 869	2 397
Gross capital expenditure		366	231	193	231	69
as a percentage of net sales	%	7.9	6.1	6.1	8.8	2.8
Research and development expenses		121	122	85	70	73
as a percentage of net sales	%	2.6	3.2	2.7	2.7	3.0
Dividends paid for the financial year		148¹	216	167	85	42
Supplementary dividend		-	192	-	198	42
Dividends total		148	408	167	283	83

MEUR		2008	2007	2006	2005	2004
Financial ratios						
Earnings per share (EPS)	EUR	3.88	2.74	3.72	1.80	1.42
Diluted EPS	EUR	3.88	2.73	3.71	1.78	1.42
Dividend per share	EUR	1.50¹	4.25	1.75	3.00	0.90
Dividend per earnings	%	38.7¹	155.1	47.0	166.7	64.1
Interest coverage		14.0	13.7	13.1	8.3	17.2
Return on investment (ROI)	%	32.4	26.0	31.8	18.0	18.0
Return on equity (ROE)	%	30.8	20.8	29.5	16.3	15.0
Solvency ratio	%	34.3	45.9	47.0	46.6	40.8
Gearing		0.39	-0.01	0.07	0.24	0.17
Equity per share	EUR	12.01	13.70	12.74	12.25	9.65

* Share of profit of associates excluding Oy Ovako Ab has been transferred above operating result.

¹ Proposal of the Board of Directors. Financial ratios calculated from total amount of dividend.

Please refer to the Calculation of Financial Ratios on page 94.

Calculation of Financial Ratios

Return on investment (ROI)

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

Return on equity (ROE)

$$\frac{\text{Profit for the financial period}}{\text{Shareholders' equity, average over the year}} \times 100$$

Interest coverage

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

Solvency ratio

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

Gearing

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

Earnings per share (EPS)

$$\frac{\text{Profit for the financial period attributable to equity holders of the parent company}}{\text{Adjusted number of shares over the financial year}}$$

Equity per share

$$\frac{\text{Equity attributable to equity holders of the parent company}}{\text{Adjusted number of shares at the end of the financial year}}$$

Dividend per share

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

Payout ratio

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

Effective dividend yield

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

Price/earnings (P/E)

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

Price/book value per share (P/BV)

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

Review by the Board of Directors 2008

Highlights of 2008

The year 2008 started with very high activity in all the main marine vessel segments. Due to the financial crisis uncertainty increased during the autumn. As a consequence the shipping market came to a complete standstill in the last quarter of 2008 and only a handful of new orders were placed.

During the first part of the year, activity in the power plant market was high and demand was strong. When the magnitude of the financial crisis became clear in the autumn, a slow-down in the customer decision making processes was seen but towards the end of the year ordering activity again picked up. At the end of the year offering activity still was at a high level and markets were active. The impact of the financial crisis is starting to be seen in certain markets where potential new projects are being delayed, mainly in the industrial self-generation segment.

During the review period January–December 2008 Wärtsilä's order intake decreased by 1% and totalled EUR 5,573 million (5,633). Net sales grew by 23% and totalled EUR 4,612 million (3,763). The operating result improved clearly to EUR 525 million (380), which is 11.4% of net sales (10.1).

Wärtsilä continued to develop its business and pursue its strategy by broadening its product portfolio and geographical presence. An important strategic step was the strengthening of Wärtsilä's ship design capabilities through acquisitions of the leading global ship design company Vik-Sandvik and the ship design company Conan Wu & Associates Pte Ltd.

Strategy

We enhance the business of our customers in the marine and energy markets by providing them with complete power solutions. We offer innovative products, services and solutions, based on constantly better and environmentally compatible technologies. Our vision is to be the most valued business partner of all our customers.

Our strategic aim is to strengthen the leading position we enjoy in our markets, and to ensure continued growth. We rely on our capability to integrate and deliver solutions from our broad equipment and service portfolio which meet the specific needs of our customer segments globally. Our priority is to offer the best efficiency, reliability and value available.

■ Strategic acquisitions, joint-ventures and expansion of the network

In March, Wärtsilä signed an agreement to acquire the Norwegian company Maritime Service AS, which specialises in ship service, and mechanical and reconditioning services. Maritime Service has its operations in Ålesund, on the west coast of Norway. The annual net sales of Maritime Service were NOK 26 million (EUR 3.2 million) in 2007.

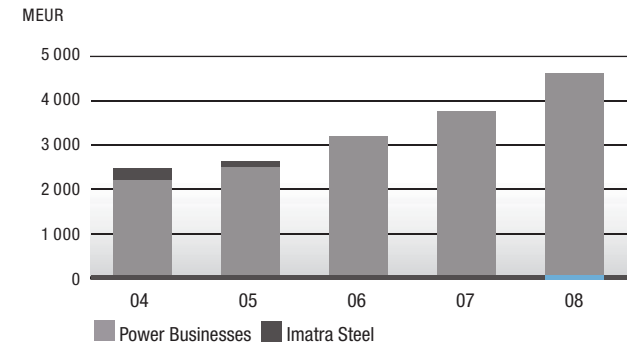
In April, Wärtsilä acquired the Danish company International Combustion Engineering A/S (I.C.E.) that specialises in project engineering and the service and repair of steam boilers and ancillary burner systems. The company's annual net sales amounted to DKK 46.8 million (EUR 6.3 million) in 2007. This acquisition expands Wärtsilä's service offering into the new type of boiler services, which in turn further improves Wärtsilä's competitiveness as a leading total services provider. Wärtsilä continued to expand its boiler services capability in June with the acquisition of the boiler services business of I.C.E.'s former subsidiary in Dubai.

In June, Wärtsilä acquired the German company Claus D. Christophel Mess- und Regeltechnik GmbH (CDC), which specialises in the design, delivery and service of automation systems for ship owners and yards. CDC's annual net sales were EUR 2.1 million in 2007.

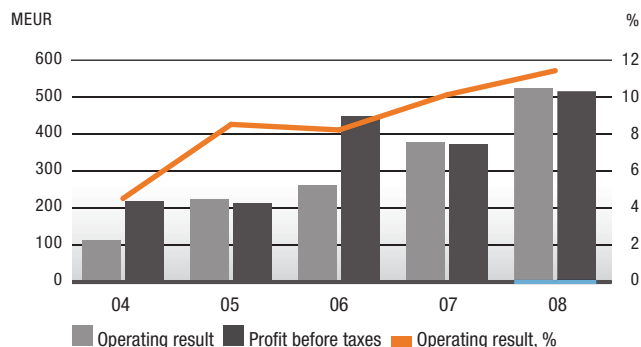
Net sales

MEUR	2008	2007	Change, %
Ship Power	1 531	1 320	16.0
Services	1 830	1 550	18.1
Power Plants	1 261	882	43.0
Eliminations and adjustments	-9	12	
Group	4 612	3 763	22.6

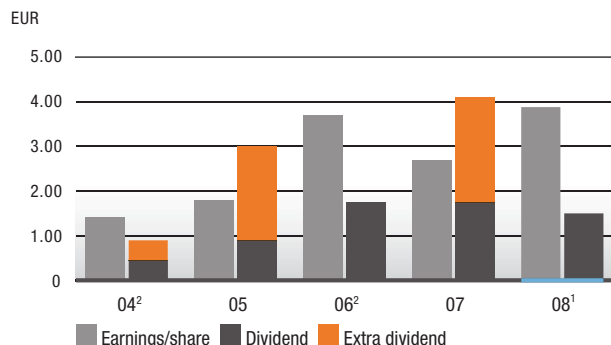
Development of net sales



Result



Earnings/share, dividend/share



¹ Proposal by the Board 2008

² Includes non-operational income; Assa Abloy & Ovako

In July, Wärtsilä signed an agreement to acquire the global ship design group Vik-Sandvik, a leading independent group providing design and engineering services to ship owners and the ship building industry worldwide. This acquisition was a major step in Wärtsilä's strategy to strengthen its position as a total solutions provider and to be the most valued partner for its customers. By combining ship design capability with its existing offerings in propulsion systems and automation, Wärtsilä will be able to provide more added value to its customers, with further growth potential in new lifecycle services. Wärtsilä's goal is to become the leading provider of ship design services in various segments. The value of the acquisition was EUR 132 million, with an additional maximum sum of EUR 38 million to be paid based on the performance of the business over the next three years. In 2007, Vik-Sandvik's net sales were EUR 55 million and the profitability is at a very good level. The number of employees is 410. Vik-Sandvik has been included in the consolidation since August 1, 2008.

In September, Wärtsilä acquired Navelec SAS, a French company specialising in marine navigation and communication systems, electrical marine services, and control and automation services. Through this acquisition Wärtsilä is able to broaden its service offering and technological knowledge in the areas of navigation and communications. It also strengthens Wärtsilä's position as the leading service provider within electrical marine and automation services. Navelec's annual net sales were EUR 7 million in 2007. The company employs 45 people.

In September Wärtsilä continued to expand within the field of ship design with the signing of an agreement to acquire Conan Wu & Associates Pte Ltd (CWA), a leading naval architecture and ship design company in Singapore. The deal also includes partnership agreements regarding CWA's businesses in Malaysia and China. The price of the deal is EUR 23 million with an additional amount to be paid based on the performance of the business during the years 2008-2010. In 2007, CWA's net sales were EUR 10.7 million and the profitability was at a very good level. CWA has 66 employees in Singapore. The acquisition price was paid and the company consolidated during the fourth quarter.

The total cost of the above acquisitions was EUR 215 million, and EUR 126 million was reported as goodwill. The goodwill of Vik-Sandvik was EUR 97 million.

In July, Wärtsilä Corporation and the Manara Consortium formed a joint venture, Manara Wartsila Power Ltd (MWP), which aims to become the leading developer of decentralised independent power producer (IPP) projects in Islamic countries. Wärtsilä owns 19.9% of the company.

In September, Wärtsilä and Metso signed a contract to form a joint venture combining Metso's Heat & Power business and Wärtsilä's Biopower business. The new joint venture is one of Europe's leading providers of medium- and small-scale power and heating plants, focusing on renewable fuel solutions. Metso owns 60% and Wärtsilä 40% of the joint venture. It is estimated that in 2008 the consolidated annual pro forma net sales of the joint venture was approximately EUR 130 million, and the number of employees approximately 200. All regulatory approvals required for the closing of the transaction were received during the fourth quarter of 2008. The order book relating to the Bio-Power business, EUR 116 million, was transferred to the joint venture at the end of the year and was thereby eliminated from Wärtsilä's order book.

During the review period, Wärtsilä Services continued the expansion of its network by opening and expanding offices and workshops in Namibia, Chile, Brazil, Madagascar, Azerbaijan, China, Turkey and Dubai. Geographical expansion continues to be part of Wärtsilä's strategic focus.

Other strategic initiatives

Wärtsilä intends to strengthen its international customer service by centralising its spare parts logistics, and by building a new spare parts distribution centre in the Netherlands. A large and modern central warehouse will be built near the company's current service unit. By this action Wärtsilä seeks faster and more efficient deliveries of spare parts. The distribution centre will become fully operational in mid 2011.

Wärtsilä and Emerson Process Management announced the expansion of their global offshore alliance in June. Under the expansion, the companies can now deliver integrated energy

and automation systems for Floating Production Storage and Offloading (FPSO) vessels and for semi submersible oil and gas drilling rigs. The collaboration between the companies began in 2006 within an alliance that at the time covered mainly FPSO vessels.

The importance of Asia as a shipbuilding hub has increased during recent years. In order to be closer to the main shipbuilding markets, the senior management of Wärtsilä Ship Power has relocated to Shanghai.

Financial targets

The average growth target for our annual sales 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%. Our operating profit target (EBIT%) is 8–10% of net sales over the cycle with a range of +/- 2%. Our solvency target is 35–40%.

The year 2008

Operating environment and markets

Ship Power markets in turmoil

The year 2008 started with very high activity in all the main marine vessel segments. Due to the financial crisis uncertainty increased during the autumn. As a consequence the shipping market came to a complete standstill in the last quarter of 2008 and only a handful of new orders were placed. In total, ordering volumes for the year 2008 represented roughly half of the very high volumes of 2007. Despite the gloomy ending to the year, ordering for the full year was still at the same level, or even above, that of the years preceding the booming markets of 2006-2007. Although signs of declining demand have been seen for quite some time, the markets were taken by surprise by the speed at which the slowdown has occurred.

Cancellations and rescheduling of existing orders occurred during the last 6 months of the year. Tightened lending policies together with the low asset values in combination with heavily decreased freight rates totally froze shipbuilding financing.

In the bigger vessel segments, such as tankers and bulkers, some 300-400 vessels were cancelled in 2008. It is quite clear that more cancellations will occur. The cancellation risk is still biggest for various merchant vessels and some offshore vessels due to the developments in oil pricing. Furthermore slippage of shipyard delivery schedules will most probably occur in the future. Many yards are scaling back from their original timetables, which in turn inevitably impacts the schedules of the whole supply chain.

Measured by number of vessels, China still holds the number one position with a 38% market share while Korean yards have signed 29% of the new vessels ordered in 2008. Japan's share has grown to 14%, whereas Europe and other areas total 9% and 10% of the total market. Measured by tonnage, Korea still represents the biggest share with 44%, China following with 38%, Japan with 12% and Europe with just 2% of the market.

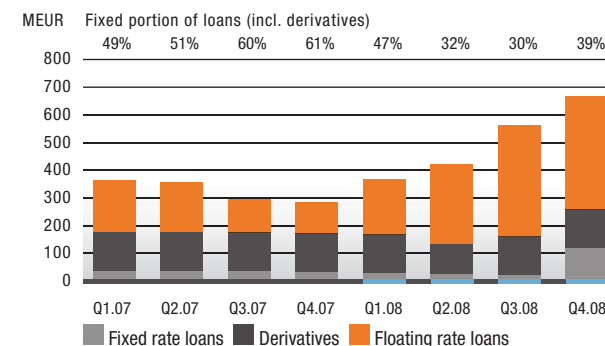
Ship Power market shares

At the end of 2008, Wärtsilä's market share in medium-speed main engines had increased to 37% (34% at the end of the third quarter 2008). This was mainly due to improved performance within the Merchant segment as well as bigger weighting of traditional Wärtsilä dominated areas such as Cruise&Ferry and Special vessels. The market share in low-speed engines increased slightly to 15% (13% at the end of the previous quarter). In auxiliary engines the market share was 8% (9).

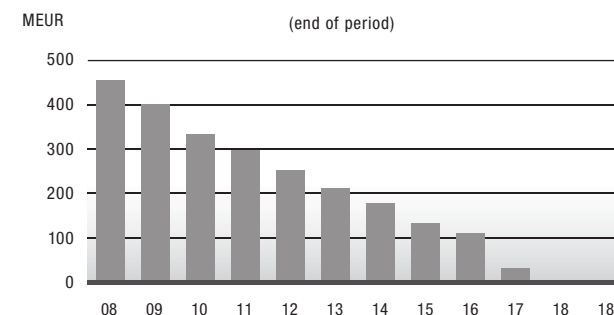
Power Plants markets active

During the first part of the year, activity in the power plant market was high and demand was strong. When the magnitude of the financial crisis became clear in the autumn, a slowdown in customer decision making processes was seen but towards the end of the year ordering activity again picked up. At the end of the year offering activity still was at a high level and markets were active. The impact of the financial crisis is starting to be seen in certain markets where potential new projects are being delayed, mainly in the industrial self-generation segment.

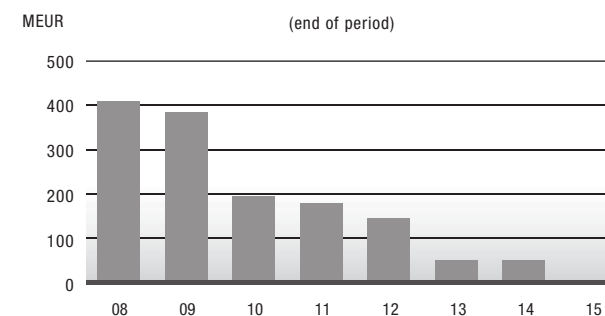
Loans



Long-term credits



Revolving credits



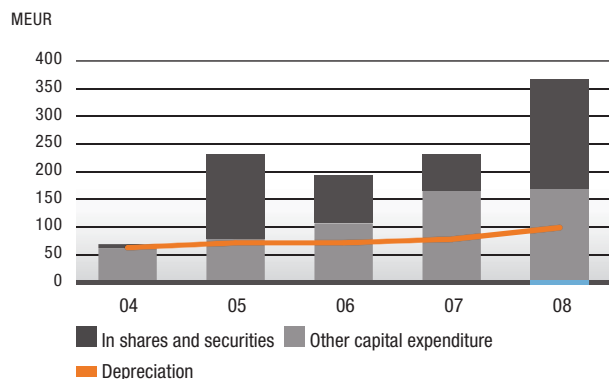
Interest-bearing loan capital

MEUR	2008	2007
Long-term liabilities	448	245
Current liabilities	216	38
Loan receivables	-12	-14
Cash and bank balances	-197	-296
Net	455	-27

Gross capital expenditure

MEUR	2008	2007
Investments in securities and acquisitions	198	65
Other investments	168	166
Group	366	231

Gross capital expenditure



Power Plants market shares

According to statistics compiled by the Diesel and Gas Turbine magazine, the total global market for oil and gas power plants in Wärtsilä's power range grew to 20,980 MW (14,065) between June 2007 and May 2008. The market for gas power plants, including both reciprocating engines and gas turbines, grew to 15,630 MW (10,900), Wärtsilä's share of the market being 8% (12). Wärtsilä's market share of heavy fuel oil plants increased to 49% (38) following a strong intake of orders from markets such as Brazil and Pakistan. In light fuel oil power plants, Wärtsilä's market share was 20% (24).

The market conditions for Services remained favourable

The market conditions in the Services business remained favourable throughout the year. Wärtsilä's installed engine base of approx. 162,000 MW, for both the Ship Power and Power Plants markets, consists of thousands of installations distributed all over the world. Both end markets consist of several customer segments for Services. Therefore downturns within specific vessel segments or geographical areas should not significantly affect Services. Also, Wärtsilä's portfolio is the broadest in the market and offers various sources of revenues, which also limits exposure to market fluctuations. Fluctuating energy prices, combined with new and more stringent environmental legislation are driving machinery development towards more complex technologies and advanced control systems. Maintaining, tuning or upgrading this equipment for optimal efficiency and emission compliance requires highly skilled specialists that aren't always available to the market. The market for Wärtsilä's Services remained active throughout the review period.

Order intake at last year's level, order book grew 9%

During the review period January-December 2008 the order intake totalled EUR 5,573 million (5,633), a decrease of 1%. The order intake for Ship Power totalled EUR 1,826 million (2,600), a 30% decrease. Order intake was brisk in Wärtsilä's Ship Power business during the first half of 2008. Demand was especially high for bulk carriers as a result of the bulker boom

in 2007 but demand was strong in other Merchant vessel types as well. Ordering within the Offshore vessels segment continued to be strong at the beginning of the year. Along with the global financial and economic crisis uncertainty grew for Wärtsilä's Ship Power business. As a result, the order intake slowed down markedly during the second half of the year and speculations about potential cancellations of vessel orders increased. Towards the end of the year, activity in the shipbuilding markets had come to an almost complete halt. For the review period the Merchant vessel segment represented 47% of Wärtsilä Ship Power's new orders. Offshore represented 27%, Special vessels 11%, Cruise&Ferry 10% and Navy represented 5% of the total Ship Power order intake.

During the review period January-December 2008, growth in Power Plants orders was very strong at 33% totalling EUR 1,883 million (1,421). The increase in order intake was mainly related to orders received from the Americas, the Middle East and some African countries. Ordering activity was especially strong in Brazil from where Wärtsilä received six orders power plants having a total output of 1,035 MW. The orders were mainly a result of the energy auctions conducted in Brazil in 2007. During the period Wärtsilä also continued to strengthen its position on the US grid stability market. The review period also marked a milestone for Wärtsilä with the receipt of an order for a combined heat and power (CHP) plant that will run on liquid biofuel extracted from the seeds of the jatropha plant. This power plant, which is to be built in Belgium, will be the first in the world ever to produce both electricity and heat using jatropha oil as fuel and is yet another important step in the development of Wärtsilä's fuel flexibility.

During the review period January-December 2008 the order intake for Wärtsilä Services totalled EUR 1,858 million (1,607), a growth of 16%. Wärtsilä Services received several substantial project orders and signed a number of operations and maintenance contracts all over the world during the period.

The total order book at the end of the review period stood at EUR 6,883 million (6,308), a growth of 9% in relation to the corresponding date last year. During the period cancellations of EUR 333 million materialised and have been deducted from the

order book. Wärtsilä sees an additional EUR 800 million at risk. In 2008 realised cancellations were concentrated mainly within the Merchant and Offshore vessel segments, with some minor impact on Special vessels.

At the establishment of the joint venture combining Metso's Heat&Power and Wärtsilä's BioPower businesses, Bio Power's order book amounting to EUR 116 million, has been transferred. Additions relating to acquisitions and other adjustments amounted to EUR 158 million.

The Ship Power order book totalled EUR 4,486 million (4,292), a growth of 5%. At the end of the review period, the Power Plants order book amounted to 1,949 million (1,608), a growth of 21% compared to the corresponding date last year. Services order book totalled EUR 445 million (405), a growth of 10%.

■ Net sales grew

Wärtsilä's net sales for January-December 2008 grew strongly by 23% and totalled EUR 4,612 million (3,763). Ship Power net sales grew by 16% and totalled EUR 1,531 million (1,320). Net sales for Power Plants developed very strongly during the review period and totalled 1,261 million (882), which represents a growth of 43% compared to the corresponding period last year. Net sales from the Services business increased to EUR 1,830 million (1,550), a growth of 18%. Organic growth represented 17% of Services' net sales growth. For the review period January-December 2008, Services net sales accounted for 40%, Ship Power net sales for 33% and Power Plants for 27% of the total net sales.

■ Result and profitability improved strongly

The operating result for the review period January-December 2008 rose to EUR 525 million (380), which is 11.4% of net sales (10.1). Financial items amounted to EUR -9 million (-8). Net interest totalled EUR -19 million (-11). Dividends received totalled EUR 7 million (7). Other financial items developed positively due to the favourable development of derivative interest differentials despite the negative impact from fair value adjustments. Profit before taxes amounted to EUR 516 million (372). Taxes in the review period amounted to EUR 127 million (106). The profit for

the financial period amounted to EUR 389 million (265). Earnings per share were EUR 3.88 (2.74). Return on Investment (ROI) was 32% (26). Return on Equity (ROE) was 31% (21).

■ Balance sheet, financing and cash flow

Cash flow from operating activities for January-December 2008 totalled EUR 278 million (431). Liquid reserves at the end of the period amounted to EUR 197 million (296). Net interest-bearing loan capital amounted EUR 455 million (-27). Going forward Wärtsilä's financial room to manoeuvre is secured by committed long-term finance agreements. Advance payments at the end of the period totalled EUR 1,243 million (860). The solvency ratio was 34.3% (45.9) and gearing was 0.39 (-0.01). The main reason for the drop in solvency relates to dividends paid, balance sheet growth and the decrease in mark-to-market bookings of assets and hedges.

■ Holdings

Wärtsilä owns 7,270,350 B shares in Assa Abloy, or 2.0% of the total. This holding has been registered in the balance sheet at its market value at the end of the reporting period, EUR 59 million.

■ Capital expenditure

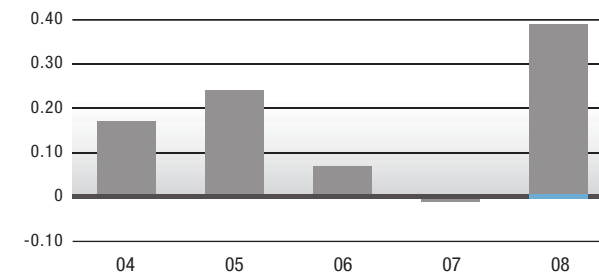
Gross capital expenditure during the review period totalled EUR 366 million (231), which comprised EUR 198 million (65) in acquisitions and investments in securities, and EUR 168 million (166) in production and information technology investments. Investments related mainly to the increase in capacity and the expansion of the Services activities around the world. Depreciation for the review period amounted to EUR 99 million (78).

Due to continued volume growth, efficiency improvements and Services related logistical development plans, the total capital expenditure excluding acquisitions for 2009, is expected to be approx. EUR 180 million.

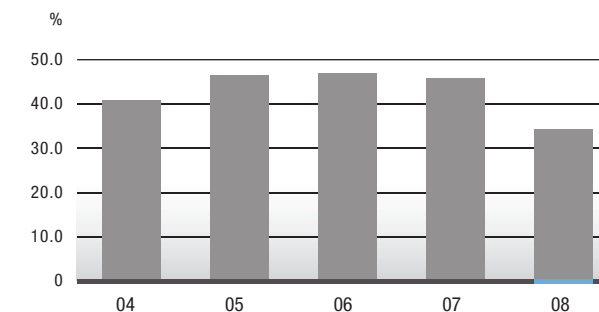
■ Manufacturing

During the fourth quarter Wärtsilä established a new global environmental products know-how unit, known as Delivery Centre Ecotech. The unit will focus on developing and delivering

Gearing



Solvency ratio



environmental technologies, as well as products for emissions reduction and efficiency improvement. By centralising the broad and outstanding know-how that exists within the company, Wärtsilä will strengthen its global leadership position in offering environmental technologies for power solutions.

In Vaasa, Finland an important environmental initiative was taken by launching a modernisation programme to reduce energy consumption in test bed facilities. Wärtsilä is further promoting similar initiatives globally.

During 2008, new license agreements were signed for the manufacturing and sale of Wärtsilä low-speed marine diesel engines with Jiangsu Rongsheng Heavy Industries Group Co. Ltd. (RSHI), Zhenjiang CME Co. Ltd. (CME) and CSSC-MES Diesel Co. Ltd. (CMD) in China.

In 2008, capacity additions were made in Korea, Norway and India. In Korea the Wärtsilä-Hyundai Engine Company, a joint venture with Hyundai Heavy Industries, was inaugurated. This 50/50 joint venture company manufactures Wärtsilä 50DF dual fuel engines for LNG carriers and other applications. In Rub-

bestadneset, Norway, Wärtsilä extended its gear plant. This extension will strengthen Wärtsilä's position as leading provider of power solutions to marine customers globally. In Khopoli, India, Wärtsilä inaugurated the extension of its plant for auxiliary units and modules for power stations. This new extension will cater to the demand for supplying auxiliaries all over the world. In Shanghai, China, Wärtsilä inaugurated a new facility related to quality assurance and optimised supply management that will further strengthen the Asian supply chain.

The investment programmes for enhancing productivity in Trieste, Italy and for the extension of propulsion capacity in Drunen, the Netherlands as well as in Zhenjiang, China have proceeded during 2008. These programmes are important for the execution of Wärtsilä's record high order book.

■ Research & development

During 2008 several R&D milestones were passed. The HALT-chamber (Highly Accelerated Life Test) was inaugurated in January at the University of Applied Sciences in Vaasa. The HALT

project is executed in cooperation between Wärtsilä and the University of Applied Sciences. Highly Accelerated Life Test methods provide a way to efficiently develop products to reach increased lifetime and reliability.

In May, Wärtsilä and Mitsubishi Heavy Industries Ltd. signed a joint development agreement to design and develop new small, low-speed marine diesel engines of less than 450 mm cylinder bore. This agreement is an extension of the strategic alliance created by Wärtsilä and Mitsubishi in September 2005.

During the second quarter, the new RTX-4 full-scale, low-speed research engine was inaugurated in the Diesel Technology Centre in Winterthur, Switzerland. This large research engine is employed to further develop Wärtsilä low-speed marine diesel engines to meet market needs.

The first RT-flex 82C common rail engine successfully completed its official shop test in September at the Hyundai Heavy Industries Co. Ltd. licensee facilities in Korea. The engine is an addition to Wärtsilä's low speed engine portfolio and has been developed in collaboration with Hyundai Heavy Industries.

The Wärtsilä fuel cell power plant at the Vaasa Housing Fair in Finland was inaugurated during the third quarter. The fuel cell unit, developed by Wärtsilä, is based on planar solid oxide fuel cell (SOFC) technology, and is the first of its kind in the world. The plant is fuelled by methane gas originating from a nearby landfill, a gas that would otherwise be harmful to the environment. The fuel cell power plant produces both electricity and heating for the residential area's needs. In the next stage the fuel cells will be tested for other applications.

In October, the International Maritime Organization (IMO) approved amendments to the MARPOL Annex VI regulations on ship emissions. The amended regulation on NO_x emissions will be introduced in two additional tiers; Tier 2 represents a global 20% NO_x reduction from the present Tier 1 level and will come into force in 2011, and the Tier 3 level in 2016 represents a massive 80% NO_x reduction from the present Tier 1 level when applied to specific designated NO_x Emission Control Areas. The engine concepts for meeting the Tier 2 NO_x level are ready for the whole Wärtsilä marine engine portfolio and some engines are already pre-certified. For Tier 3, the "Selective Cata-

Shares and shareholders

31 December 2008	Number of shares		Number of votes	Number of shares traded 1–12/2008
WRT1V	98 620 565		98 620 565	147 205 344
1 Jan. –31 Dec. 2008	High	Low	Average ¹	Close
WRT1V	52.40	15.50	35.41	21.01

¹ Trade-weighted average price

Market capitalization

EUR million	31 Dec. 2008	31 Dec. 2007
	2 072	5 023

Foreign shareholders

	31 Dec. 2008	31 Dec. 2007
	45.8%	50.0%

lytic Reduction" (SCR catalyst) represents a means by which the level can already be achieved today. Wärtsilä has over 100 SCR equipped engines in operation. Wärtsilä is currently investigating and developing other measures to ensure cost efficient compliance with IMO Tier 3 regulations. The revised Annex VI also sets limits on the fuel sulphur content. Wärtsilä engines are designed for operation on any fuel sulphur content.

In the engine laboratory in Vaasa, a 6-cylinder prototype of the new Wärtsilä 34DF, dual-fuel gas engine, was introduced. Testing started in order to confirm the performance of this new engine type. The first orders for the new engine W20V46F for power plant applications were received, and serial production has been started.

In 2008 Wärtsilä's research and development expenses totalled EUR 121 million (122), or 2.6% of net sales.

■ Sustainable development

Wärtsilä's Sustainability Report, which is part of the annual report, is prepared in accordance with the GRI G3 guidelines. It represents a balanced and reasonable view of Wärtsilä's economic, environmental and social performance. The Sustainability Report is assured.

■ Personnel

Wärtsilä's personnel on average during the review period was 17,623 (15,337). At the end of December Wärtsilä had 18,812 (16,336) employees, an increase of 15%. The largest personnel increases took place in the Services business where 11,011 (9,563) people were employed at the end of December.

During the review period Wärtsilä launched a Top Graduates professional programme for R&D. During the programme, attendees will drive R&D projects throughout Wärtsilä's international organisation. Similar programmes for finance and IM graduates have been in place since March 2007.

■ Changes in management

Atte Palomäki (43) M.Sc. (pol.) started as Group Vice President, Corporate Communications and a member of the Board of Management on March 1, 2008.

■ Shares and shareholders

In March Wärtsilä's A and B-series shares were combined. Following this combination all shares now carry one vote and equal rights. The combination of the share series involved a free share issue directed to the holders of Series A-shares so that holders of Series A-shares received one share free of charge for each nine Series A-shares. In the directed share issue 2,619,954 shares were given. Trading with the new and combined shares started on 27th of March 2008.

■ Shares on Helsinki Exchanges

More information about Wärtsilä's shares and shareholders can be found in the Corporate Governance Review in the annual report on page 47.

■ Changes in ownership

During the review period and in relation to the combination of the share series and the directed free share issue, Wärtsilä was informed of the following changes in ownership:

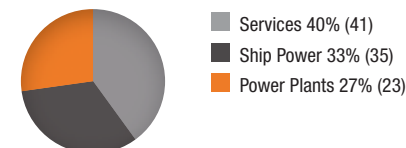
Following the transaction, the Fiskars Group's share of Wärtsilä Corporation's votes decreased to less than 1/5 (20%). In total, Fiskars Group holds 16,846,301 or 17.1% of Wärtsilä Corporation's share capital and votes.

Varma Mutual Pension Insurance's share of Wärtsilä Corporation's shares increased to more than 1/20 (5%) and its share of the votes decreased to less than 1/10 (10%). Following the transaction Varma holds 5,130,087 or 5.2% of Wärtsilä's share capital and total votes.

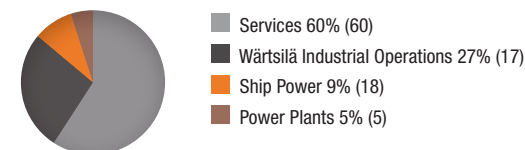
Svenska Litteratursällskapet i Finland r.f's share of Wärtsilä Corporation's votes decreased to less than 1/20 (5%). Following the transaction Svenska Litteratursällskapet holds 1,735,506 or 1.76% of Wärtsilä's share capital and total votes.

The above-mentioned changes came into effect when the combined and new shares were registered in the trade register on 26 March 2008.

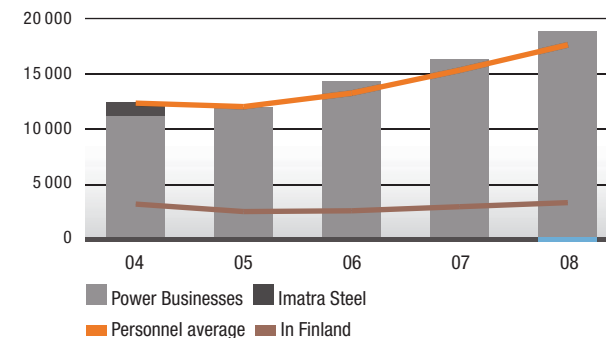
Net sales by business area



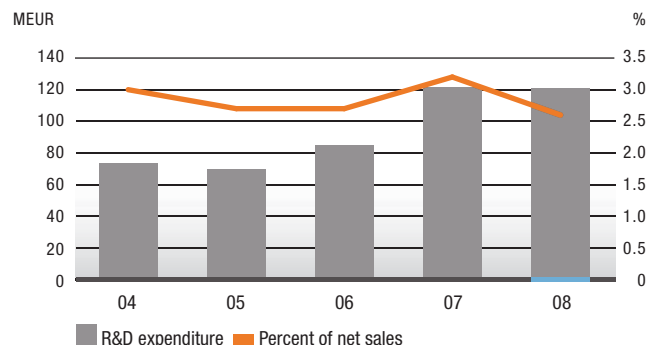
Personnel by businesses



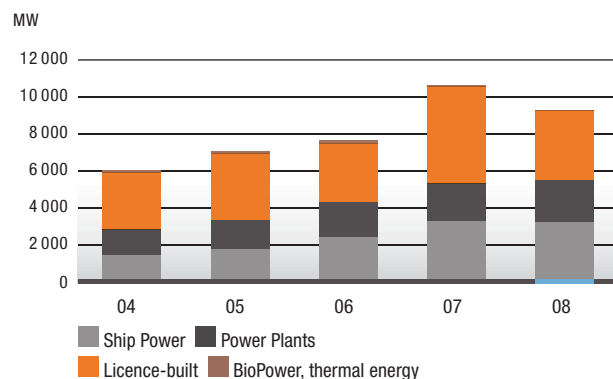
Personnel



R&D expenditure



Megawatts delivered



Megawatts delivered

	2008	2007	Change %
Power Plant engines	2 324	2 056	13.0
Ship Power, own engines	3 205	3 287	-2.5
Wärtsilä total	5 529	5 343	3.5
By licensees	3 725	5 228	-28.7
BioPower, thermal energy	49	73	-32.9
Engine delivery total	9 303	10 644	-12.6

Option schemes

During the review period, Wärtsilä had one option scheme that ended on 31 March 2008. All option rights of this 2002 option scheme were exercised.

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting on 19 March 2008 approved the financial statements and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2007. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 2.25 per share and an extra dividend of EUR 2.00 per share for a total dividend of EUR 4.25 per share.

The 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 Kaj-Gustaf Bergh, Mr Kari Kauniskangas, Mr Antti Lagerroos, Mr Bertel Langenskiöld and Mr Matti Vuoria.

The firm of authorised public accountants KPMG Oy Ab was appointed to be the company's auditors.

The Annual General Meeting approved the proposal of the Board of Directors to amend the Articles of Association.

The Annual General Meeting approved the proposal of the Board of Directors to direct a free share issue to holders of A shares and to combine the Series A and Series B shares and the changes to the Articles of Association.

Organisation of the Board of Directors

The Board of Directors of Wärtsilä Corporation elected Antti Lagerroos as its chairman and Matti Vuoria 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, Maarit Aarni-Sirviö, Matti Vuoria

Nomination Committee:

Chairman Antti Lagerroos, Matti Vuoria, Kaj-Gustaf Bergh

Compensation Committee:

Chairman Antti Lagerroos, Matti Vuoria, Bertel Langenskiöld

Risks and business uncertainties

The global financial crisis has rapidly changed the economic environment and the shipping market. Fears of an oversupply in some vessel types have become evident and freight rates have fallen drastically. The ship owners' asset values have dropped and, in some cases, second hand values are not even available. In most parts of the market, ordering a new vessel is not feasible as new build prices are still high, despite the very recent softening. Banks have almost completely ceased lending for new projects, opting to focus on securing current vessels under construction. Some owners are facing difficulties in taking delivery of their orders and trading of orders is already taking place. The balance is gradually moving from a shipyard market to a ship owners' market as orders have become scarcer. The slippage in shipyard delivery schedules is also a risk that affects the Ship Power business. Due to this uncertainty within the shipbuilding markets, the risk of cancellation of vessel orders has increased from the previous quarter. Wärtsilä sees a potential cancellation risk of approximately EUR 800 million.

Even though the fundamentals within the Power Plant business remain unchanged, the current financial crisis has an effect on the timing of orders. The financing of some future projects may also face difficulties. To date this risk has not materialised. Offering activity remains at a high level. The funding of many future projects appears to be secure, particularly in countries with continued GDP growth. Government funded projects for utilities also seem to be on the upturn, as economic stimulus packages are being implemented in many parts of the world. Infrastructure projects are often prioritised. As expected, the uncertainty in the market has created a slowdown in the industrial self generation segment, in particular in the mining industry where new investments are postponed, down-scaled or put on hold. At the end of 2008, industrial self generation projects represented 19% of the total order book of the Power Plants business.

During the year the risk related to the uncertainty in the global market for raw materials eased and raw material prices became more stabilised. Constraints relating to the availability of key components, previously limiting Wärtsilä's growth, has eased. Due to the current market situation and economical development, Wärtsilä closely monitors the impacts of the financial crisis on the whole supply chain.

More information about Wärtsilä's strategic and operative risks can be found in the Risks and risks management – section in the annual report on page 42.

Market outlook

Due to the extensive financial crisis and the economic recession, the shipbuilding and shipping environment is in a very different situation compared to six months ago. Ordering activity for new vessels has come to an almost complete standstill, and it is hard to estimate at what point activity could start to pick up again. There is an imbalance between vessel capacity and demand in certain vessel segments such as bulk carriers and container vessels. Ship owners have started to lay up parts of their fleet as well to reduce operating frequency to balance the capacity. In the longer term, the most decisive factor is how fast the market will be able to adapt to this situation and regain balance. In addition to the general global economical development, vessel order cancellations and scrapping of older fleets will play an important role in the market's recovery.

In vessel segments of greater importance to Wärtsilä, such as Offshore, Special vessels and Cruise&Ferry, there is still activity on the market. However, difficulties in funding and stricter lending conditions, are affecting these projects as well. These markets are the ones most likely to pick up the fastest when the most acute phase of the crisis is over.

Demand within the Power Plants market remains at a good level. The need for a more efficient and CO₂-friendly power generation mix remains. The main drivers for demand in this market remain the quest for increased efficiency, and versatility in power generation due to environmental concerns and fuel availability issues. The flexible baseload market segment is expected to remain active, especially throughout the Middle East, Africa and the Americas. Continued potential is seen in the grid stability services market in North America as well as in other developed countries. A slow down will be seen in the industrial self-generation market segment, especially in mining but also in the cement industry. 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, ordering activity is estimated to be at a good level during the next two quarters. Visibility into the timing of orders is harder to predict.

Services, which during the review period constituted 40% of total net sales, continues its stable development.

The long order book and flexible manufacturing model, in combination with the stable Services business and its global network, gives Wärtsilä time to react to fluctuations in the market.

Wärtsilä's prospects for 2009

Despite the risk of cancellations, the substantial order book at the end of the year should support a 10-20 percent growth in net sales for 2009, which would maintain the profitability at last year's good level.

Board of Director's proposal to the AGM 2009

The Board of Directors proposes to the Annual General Meeting to be held on the 11 March 2009 that a dividend of 1.50 euros per share be paid for the financial year 2008. Wärtsilä's distributable funds at the end of the period totalled EUR 415,185,892.59 million.

29 January 2009
Wärtsilä Corporation
Board of Directors

Consolidated Financial Statements

Consolidated Income Statement

MEUR	Note	2008	%	2007	%
Net sales	1, 3	4 612	100.0	3 763	100.0
Change in inventories of finished goods & work in progress		304		59	
Work performed by the Group and capitalized		7		8	
Other income	4	26		21	
Material and services	5	-2 999		-2 249	
Employee benefit expenses	6	-854		-728	
Depreciation and amortizations	7	-99		-78	
Other expenses		-474		-417	
Share of profit of associates and joint ventures	13, 14			1	
Operating result		525	11.4	380	10.1
Income from financial assets	8	7		7	
Interest income	8	9		8	
Other financial income	8	22		12	
Interest expenses	8	-27		-18	
Other financial expenses	8	-20		-16	
Profit before taxes		516		372	
Income taxes	9	-127		-106	
Profit for the financial period		389	8.4	265	7.1
Attributable to:					
Equity holders of the parent company	10	380		262	
Minority interest		9		3	
		389		265	
Earnings per share attributable to equity holders of the parent company:					
Earnings per share, EUR		3.88		2.74	
Diluted earnings per share, EUR		3.88		2.73	

Consolidated Balance Sheet, Assets

MEUR	Note	31.12.2008	%	31.12.2007	%
Non-current assets					
Intangible assets	11	244		202	
Goodwill	11	549		445	
Property, plant and equipment	12	435		365	
Investment properties	12	11		13	
Equity in associates and joint ventures	13,14	41		16	
Investments available for sale	15,17	106		155	
Interest-bearing investments	17	11		12	
Deferred tax receivables	20	85		70	
Trade receivables	17	3			
Other receivables	18	12		7	
		1 498	31.6	1 283	34.2
Current assets					
Equity in associates ¹	13			1	
Inventories	16	1 656		1 081	
Interest-bearing receivables	17	1		2	
Trade receivables	17	891		874	
Income tax receivables		14		11	
Other receivables	18	486		201	
Cash and cash equivalents	19	197		296	
		3 245	68.4	2 466	65.8
Assets		4 743	100.0	3 749	100.0

¹ Shares in Oy Ovako Ab; liquidated in 2008.

Consolidated Balance Sheet, Shareholders' equity and liabilities

MEUR	Note	31.12.2008	%	31.12.2007	%
Shareholders' equity					
Share capital	22	336		336	
Share premium reserve	22	61		61	
Translation differences		-27		3	
Fair value reserve	24	50		127	
Retained earnings		764		788	
Total equity attributable to equity holders of the parent		1 184	25.0	1 315	35.1
Minority interest		15	0.3	10	0.3
Total shareholders' equity		1 199	25.3	1 325	35.3
Liabilities					
Non-current liabilities					
Interest-bearing debt	17, 26	448		245	
Deferred tax liabilities	20	86		81	
Pension obligations	21	40		45	
Provisions	25	24		25	
Advances received		329		394	
Other liabilities	17, 27	1		3	
		927	19.6	792	21.1
Current liabilities					
Interest-bearing debt	17, 26	216		38	
Provisions	25	165		139	
Advances received		915		466	
Trade payables	17, 26	444		348	
Income tax liabilities		58		35	
Other liabilities	17, 27	819		605	
		2 616	55.2	1 632	43.5
Total liabilities		3 544	74.7	2 424	64.7
Shareholders' equity and liabilities		4 743	100.0	3 749	100.0

Consolidated Cash Flow Statement

MEUR	2008	2007
Cash flow from operating activities:		
Profit before taxes	516	372
Adjustments:		
Depreciation	99	78
Financial income and expenses	9	8
Selling profit and loss of fixed assets and other changes	2	-7
Share of profit of associates and joint ventures		-1
Cash flow before changes in working capital	626	450
Changes in working capital:		
Assets, non-interest-bearing, increase (-)/decrease (+)	-278	-162
Inventories, increase (-)/decrease (+)	-561	-251
Liabilities, non-interest-bearing, increase (+)/decrease (-)	589	548
Changes in working capital	-250	135
Cash flow from operating activities before financial items and taxes	377	585
Financial items and taxes:		
Interest and other financial expenses	-45	-42
Interest and other financial income	50	15
Income taxes	-104	-127
Financial items and taxes	-99	-154
Cash flow from operating activities	278	431

MEUR	2008	2007
Cash flow from investing activities:		
Investments in shares and acquisitions	-198	-65
Investments in tangible and intangible assets	-168	-166
Proceeds from sale of shares	9	7
Proceeds from sale of tangible and intangible assets	21	2
Loan receivables, increase (-)/decrease (+) and other changes	1	
Dividends received from investments	7	7
Cash flow from investing activities	-329	-214
Cash flow after investing activities	-51	217
Cash flow from financing activities:		
Options exercised		4
New long-term loans	260	65
Amortization and other changes in long-term loans	-4	-33
Loan receivables, increase (-)/decrease (+)		5
Current loans, increase (+)/decrease (-)	129	31
Dividends paid	-412	-168
Cash flow from financing activities	-26	-95
Change in cash and cash equivalents, increase (+)/decrease (-)	-76	122
Cash and cash equivalents at beginning of period	296	179
Cash and cash equivalents of joint ventures at beginning of period	-18	
Fair value adjustments, investments	1	1
Exchange rate changes	-6	-6
Cash and cash equivalents at end of period	197	296

Statement of Changes in Shareholders' Equity

MEUR	Total equity attributable to equity holders of the parent					Total	Minority interest	Total equity
	Share capital	Share issue premium	Translation differences	Fair value reserve	Retained earnings			
Shareholders' equity on 1 January 2007	334	58	3	128	693	1 217	13	1 230
Other changes							-6	-5
Investments available for sale								
gain/loss arising from fair valuation, net of taxes				-18		-18		-18
Cash flow hedges								
gain/loss arising from fair valuation, net of taxes				29		29		29
transferred to income statement, net of taxes				-13		-13		-13
Net income recognized directly in equity				-1		-1	-6	-7
Profit for the financial period					262	262	3	265
Total recognized income and expenses for the period				-1	262	261	-2	259
Options exercised	1	3				4		4
Dividends paid					-167	-167	-1	-168
Shareholders' equity on 31 December 2007	336	61	3	127	788	1 315	10	1 325
Translation differences			-23			-23		-23
Other changes					4	4		4
Investments available for sale								
gain/loss arising from fair valuation, net of taxes				-37		-37		-37
Cash flow hedges								
gain/loss arising from fair valuation, net of taxes				-18		-18		-18
transferred to income statement, net of taxes				-22		-22		-22
Net income recognized directly in equity			-23	-77	4	-96		-96
Profit for the financial period			-7		380	373	9	382
Total recognized income and expenses for the period			-30	-77	384	277	9	286
Dividends paid					-408	-408	-4	-412
Shareholders' equity on 31 December 2008	336	61	-27	50	764	1 184	15	1 199

Additional information on share capital is presented in Note 22 and for fair value reserve in Note 24.

Accounting Principles for the Consolidated Accounts

■ Basic information

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

Wärtsilä enhances the business of its customers by providing them with complete life cycle power solutions. When creating better and environmentally compatible technologies, Wärtsilä focuses on the marine and energy markets with products and solutions as well as services. Through innovative products and services, Wärtsilä sets out to be the most valued business partner of all its customers. This is achieved by the dedication of close to 19,000 professionals manning 160 locations in close to 70 countries around the world.

■ Basis of preparation

The consolidated annual financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) applying the IAS and IFRS standards, and their SIC and IFRIC interpretations, in force at 31 December 2008. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedure stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with Finnish accounting principles and corporate legislation.

Reporting is based on the historical cost convention. Exceptions are assets available for sale, financial assets and liabilities designated at fair value through profit or loss, derivative contracts, items hedged at fair value, and share-based transactions made with cash and measured at fair value. The figures are in millions of euros.

Since 1 January 2008 the Group has applied the following updated standards and interpretations:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.
- IFRIC 12 Service Concession Arrangements. The Interpretation has not yet been approved for application in the EU.
- IFRIC 13 Customer Loyalty Programmes.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
- Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Instruments.

These standards and interpretations have no material impact on the financial statements.

Wärtsilä's consolidation method in joint ventures has changed from proportionate consolidation to equity method.

■ Use of estimates

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

Sales revenue is normally recognized when the product or service has been delivered, its value has been determined and it is probable that the booked receivable will be collected. These estimates affect the amount of sales revenue recognized. Revenue from long-term projects and long-term operations and maintenance agreements is recognized according to their percentage of completion when the profit on the project or agreement can be reliably determined. The degree of completion and the profit are based on management's estimates as to the realization of the project or agreement. These estimates are reviewed regularly. Booked sales revenue and profit are adjusted during the project when assumptions concerning the outcome of the entire project are updated. Changes in assumptions relate primarily to changes in the project's or agreement's schedule, scope of supply, technology, costs and any other relevant factors.

Warranty provisions are recorded on the recognition of sales revenue. The provision is based on accumulated experience of the level of warranty needed to manage future and current cost claims. Products can contain new and complex technology that can affect warranty estimates with the result that such provisions are not always sufficient.

The Group is a defendant in several court cases arising from its business operations. A provision is recorded when an unfavorable result is probable and the loss can be determined with reasonable certainty. The final result can differ from these estimates.

The recoverable amounts of tangible and intangible assets and goodwill are determined for all cash-generating units annually or, if it is shown that the asset has lost value, its value in use is determined. The value in use is determined using estimates of future market development such as growth and profitability as well as other significant factors. The most important factors underlying such estimates are growth, operating margin, useful life, future investment needs, and the discount interest rate. Changes in these assumptions can significantly affect future estimates.

Estimates of pension obligations in the case of defined benefit plans are based on actuarial estimates of factors including future salary increases, discount interest rates and income from reserve funds. Changes in these assumptions can significantly affect the company's pension obligations and pension costs.

■ Principles of consolidation

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

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

Acquired companies are accounted for using the purchase method of accounting according to which the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The difference between the purchase price and the company's net identifiable assets, liabilities and contingent liabilities is reported as goodwill. In the acquisition of minority interests, if the Group already has control before the minority acquisition, the acquired assets and liabilities are measured at book value on the date of acquisition, and the difference between the purchase price and the book value of the net assets is reported as goodwill. Goodwill is tested for impairment at least annually.

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

■ Measurement of fair value of assets acquired in business combinations

In major business combinations, the Group has employed an external advisor when measuring the fair values of the tangible and intangible assets acquired. In the case of tangible assets, comparisons have been made with the market prices of corresponding assets, and the decrease in value resulting from the assets' age, degree of wear and other similar factors has been estimated. Measurement of the fair value of intangible assets is based on estimates of cash flows related to these assets.

■ Joint ventures

Joint ventures are companies in which the Group shares control with another party. The Group's holdings in joint ventures are consolidated by using the equity method. Group's proportion of profit is shown in the income statement on line Share of profit in associates and joint ventures. Wärtsilä's proportion of retained earnings post acquisition is included in the shareholders' equity.

■ Foreign subsidiaries

In the consolidated financial statements, the income statements and cash flows of foreign subsidiaries are translated into euros at the quarterly average exchange rates. Balance sheets are translated into euros at the exchange rates prevailing at the balance sheet date and translation differences are recognized in equity.

■ Transactions in foreign currencies

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

■ Net sales and revenue recognition

Sales are presented net of indirect sales taxes and discounts. Sales are recognized when the significant risks and rewards connected with ownership have been transferred to the buyer. This usually means that revenue recognition occurs when a product or service is delivered to the customer in accordance with the terms of delivery.

Revenue from long-term contracts and long-term operating and maintenance agreements is recognized in accordance with the percentage of completion method when the outcome of the contract can be estimated reliably. The percentage of completion is based on the ratio of costs incurred to total estimated costs to date for long-term construction contracts, whereas for long-term operating and maintenance agreements it is calculated on the basis of the proportion of the contracted services performed. When the final outcome of a long-term project cannot be reliably determined, the costs arising from the project are expensed in the same reporting period in which they occur, but revenue from the project is recorded only to the extent that the company will receive an amount corresponding to actual costs. Any losses due to projects are expensed immediately.

■ Research and development costs

Research and development costs are expensed in the reporting period during which they occur except for development costs, which are capitalized when it is probable that the development project will generate future economic benefits for the Group, and when the criteria of IAS 38 (Intangible assets), including commercial and technological feasibility, have been met. These projects involve the development of new or significantly improved products or production processes. Capitalized development costs are amortized and the cost of buildings, machinery and facilities for development depreciated on a systematic basis over their expected useful lives. Grants received are reported as other income.

■ Pension benefits

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

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

■ Share-based payments

The fair value of employee options is reported as an expense and an increase in shareholders' equity.

The company's bonus programme, which is fixed to share value, is valued at the fair value of the share on the reporting date and reported in the income statement for the term-to-maturity of the bonus programme.

■ Goodwill and other intangible assets

The difference between the purchase price and the fair value of a company's net assets and contingent liabilities at the date of acquisition is reported as goodwill. Goodwill consists of the future economic benefit of those assets whose value the Group is unable to calculate either separately or individually at the date of acquisition. Under IFRS goodwill is not amortized but tested for impairment at least annually, and more often if there are indications of impairment.

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

The general guidelines for scheduled amortization are:

Development costs	5–10 years
Software	3–7 years
Other intangible assets	5–20 years

■ Property, plant and equipment and depreciation

Fixed assets acquired by the Group are recorded in the balance sheet at cost less accumulated depreciation and impairment losses. Grants received are reported as a reduction in acquisition costs. The fixed assets of acquired subsidiaries are valued at their fair value at the acquisition date. Depreciation is based on the following estimated useful lives:

Buildings	10–40 years
Machinery and equipment	5–20 years
Other tangible assets	3–10 years

■ Investment properties

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

■ Leases

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

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

■ Inventory valuation

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

■ Financial assets and financial liabilities

Financial assets are classified into the following categories: financial assets designated at fair value through profit or loss, investments held to maturity, loans and other receivables, and financial assets available for sale. Financial assets are classified on the basis of their purpose upon initial recognition.

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and similar investments. Other liquid funds comprise short-term highly liquid investments that are subject to only minor fluctuations in value.

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

Investments held to maturity are valued at cost. Investments held to maturity are assets with fixed or determinable payments, that mature on a fixed date, and which the Group intends and is able to hold until maturity.

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

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

Certain foreign exchange derivatives are eligible for hedge accounting in accordance with IAS 39. Changes in the fair value of derivative contracts that have been signed to hedge future cash flows are reported under shareholders' equity, provided that they meet the requirements for hedge accounting. Changes in fair value due to interest rate differences are reported in the income statement. Any accrued profit or loss in the hedge reserve under shareholders' equity is reported as an adjustment to selling proceeds or transaction costs in the same period as any transactions relating to the hedged obligations or estimates.

The Group documents the relationship between each hedging instrument and the hedged asset upon entering into a hedging arrangement, along with the risk management objective and the strategy applied. Through this process the hedging instrument is linked to the relevant assets and liabilities, projected business transactions or binding contracts. The Group also documents its ongoing assessment of the effec-

tiveness of the hedge as regards the relationship between a change in the derivative's fair value and a change in the value of the hedged cash flows or transactions.

Equity in foreign subsidiaries situated outside the euro zone is hedged against exchange rate fluctuations mainly through foreign exchange derivatives and foreign currency borrowings using the equity hedging method to reduce the effect of exchange rates on the Group's equity. When a foreign subsidiary is sold, these translation differences are included in the gain or loss on disposal reported in the income statement.

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

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

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

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

■ Impairments

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

■ Provisions

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

Estimated future warranty costs relating to products supplied are recorded as provisions. The amount of future warranty costs is based on accumulated experience.

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

■ Income taxes

The income statement includes taxes on the Group's consolidated taxable income for the reporting period in accordance with local tax regulations, tax adjustments for previous reporting periods and changes in deferred taxes. Deferred tax liabilities and assets are calculated on all temporary differences arising from the difference between the tax basis of assets and liabilities and the carrying values using the enacted tax rates at the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax assets at their estimated probable amount.

■ Dividends

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

■ Adoption of new and updated IFRS standards

The standards, their interpretations and amendments described below have been released but the Group will not adopt them until the mandatory adoption date. In 2009 the Group will adopt the following new and updated standards and interpretations issued by the IASB:

■ IFRS 8 Operating Segments (effective for periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 Segment Reporting. According to the new standard, segment reporting is based on the internal reports of management and the measurement principles used therein. The Group considers that the change to this standard will not have an impact on segments. The Group will assess the possible impacts of segment reporting in the notes to future financial statements.

■ Amendment to IAS 23 Borrowing Costs (effective for periods beginning on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The Group has thus far expensed capital expenditure in the reporting period during which they occurred. The Group considers that the change to this standard will not have a significant impact on future financial statements.

■ Amendment to IAS 1 Presentation of Financial Statements (effective for periods beginning on or after 1 January 2009). The revised standard changes the way in which financial statements are presented. The Group considers that the change will impact primarily the presentation of the income statement and the statement of changes in shareholders' equity.

■ Amendment to IFRS 2 Share Based Payment – Vesting conditions and Cancellations (effective for periods beginning or after 1 January 2009). The amendment requires non-vesting conditions to be treated in a similar fashion to market conditions and hence factored into account in determining the fair value of the equity instruments granted. The amendment will have no impact on future financial statements.

■ Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for periods beginning or after 1 January 2009). According to the amendment the puttable financial instruments will be classified as equity instead of financial liability if they have certain specified features. The amendments will have no impact on future financial statements.

■ Improvements to IFRS (effective mainly for periods beginning or after 1 January 2009). The Improvements to IFRS is an annual process to deal with non-urgent but necessary amendments to IFRS. The improvements change by standard but according to initial assessments the improvements are not material to Group.

■ IFRIC 15 Agreements for the Construction of Real Estate (effective for periods beginning or after 1 January 2009). The aim of the interpretation is to determine whether an agreement for the construction of real estate is within the scope of IAS 11 or IAS 18 and when the income can be recognized. The interpretation will have no impact on future financial statements. The interpretation has not yet been approved for application in the EU.

■ IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for periods beginning or after 1 October 2008). The interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. The Group is assessing the impacts of this interpretation. The interpretation has not yet been approved for application in the EU.

■ Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for periods beginning or after 1 January 2009). The amendments to standards are for first-time adopters and therefore have no impact on future financial statements.

In 2010 the Group will adopt the following new and updated standards and interpretations issued by the IASB:

■ Revised IFRS 3 Business Combinations (effective for periods beginning or after 1 July 2009). The revised standard includes several material changes to Group. There will be no impact on accounting related to business combinations with an acquisition date prior to the date of transition. The revised standard has not yet been approved for application in the EU.

■ Amendment to IAS 27 Consolidated and Separate Financial Statements (effective for periods beginning or after 1 July 2009). According to the amendment the change in subsidiary's shareholding will be recognized in the shareholders' equity if the parent's control holds. If the control is lost the investment will be valued at its fair value and recorded in the income statement. The Group assesses that there will be impact on future business transactions. The amendment has not yet been approved for application in the EU.

■ Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective for periods beginning or after 1 July 2009). The amendment provides clarification in relation to hedge accounting and clarifies the hedging of one-sided risk and inflation risk of financial assets and liabilities. The amendment will have no considerable impact on future financial statements. The revised standards have not yet been approved for application in the EU.

■ IFRIC 17 Distributions of Non-cash Assets to Owners (effective for periods beginning or after 1 July 2009). The interpretation will standardise practice in the accounting treatment of distribution of non-cash assets to owners. The interpretation will have no considerable impact on future financial statements. The interpretation has not yet been approved for application in the EU.

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 manufac-

turing process is the same for each market. Similarly, the same Group companies are responsible for the distribution 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, Americas, 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 2008

MEUR	Europe	Asia	Americas	Other	Non-allocated	Group
Net sales	1 695	1 792	689	436		4 612
Assets	3 682	597	301	64	100	4 743
Investments	286	70	8	2		366

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

2. Acquisitions

Acquisitions 2008

Overall impact on performance

MEUR	Booked in income statement 2008	On full-year pro forma performance
Net sales	42	4 674
Operating result	16	558

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.

Vik-Sandvik Group

In August Wärtsilä acquired the global ship design group Vik-Sandvik, a group providing design and engineering services to ship owners and the ship building industry worldwide. This acquisition was a major step in Wärtsilä's strategy to strengthen its position as a total solutions provider and to be the most valued partner for its customers. By combining ship design capability with its existing offerings in propulsion systems and automation, Wärtsilä will be able to provide more added value to its customers, with further growth potential in new life cycle services. Wärtsilä's goal is to become the leading provider of ship design services in various segments.

Vik-Sandvik's sales between August and December amounted to EUR 30 million.

Acquisition price	MEUR
Consideration paid in cash	165
Acquisition costs	0
	165
Acquired assets to fair value	-68
Goodwill	97

Cash flow from the acquisitions

Consideration paid in cash	165
Cash and cash equivalents of the acquired companies	-24
	141

Specification of acquired assets

	Book value	Fair value
Intangible assets		51
Property, plant and equipment	5	5
Investments available for sale	8	6
Receivables	34	34
Cash and cash equivalents	24	24
Liabilities	-4	-4
Deferred tax liabilities	-33	-47
Total	34	68

Other acquisitions

In March Wärtsilä acquired the Norwegian company Maritime Service AS, which specializes in ship service, and mechanical and reconditioning services.

In April Wärtsilä acquired the Danish company International Combustion Engineering A/S (I.C.E.) that specializes in project engineering and the service and repair of steam boilers and ancillary burner systems. This acquisition expands Wärtsilä's service offering into the new category of boiler services, which in turn further improves Wärtsilä's competitiveness as a leading total services provider. Wärtsilä continued to expand its boiler services capability in June with the acquisition of the boiler services business of I.C.E.'s former subsidiary in Dubai.

In June Wärtsilä acquired the German company Claus D. Christophel Mess- und Regeltechnik GmbH (CDC), which specializes in the design, delivery and service of automation systems.

In September Wärtsilä acquired Navelec SAS, a French company specializing in marine navigation and communication systems, electrical marine services, and control and automation services. Through this acquisition Wärtsilä is able to broaden its service offering and technological knowledge in the areas of navigation and communication. It also strengthens Wärtsilä's position as the leading service provider within electrical marine and automation services.

In October Wärtsilä continued to expand within the field of ship design by acquiring Conan Wu & Associates Pte Ltd (CWA), a leading naval architecture and ship design company, in Singapore. The deal also included partnership agreements regarding CWA's businesses in Malaysia and China.

Acquisition price

	MEUR
Consideration paid in cash	49
Acquisition costs	1
Acquired assets to fair value	49
Goodwill	-20
Cash flow from the acquisitions	29
Consideration paid in cash	49
Costs attributable to the acquisitions	1
Cash and cash equivalents of the acquired companies	-3
	46

Specification of acquired assets

	Book value	Fair value
Intangible assets		14
Property, plant and equipment	3	4
Inventories	4	4
Receivables	9	9
Cash and cash equivalents	3	3
Liabilities	-10	-10
Deferred tax liabilities		-3
Total	8	20

The assets, liabilities and contingent liabilities of the companies are measured at fair value at the time of acquisition. Intangible assets include drawing database, customer relations, trademarks and valuation of order book, the value of which is based on discounted cash flow over a useful life of 1-10 years. The goodwill calculated on these acquisitions is based on the expertise of the companies' employees and on synergies that will materialize as the Group gains a broader product range. Due to the acquisitions Wärtsilä has a significantly stronger position in ship design which broadens the supply in life cycle services and adds the growth possibilities.

Acquisitions 2007

Overall impact on performance

MEUR	Booked in income statement 2007	On full-year pro forma performance
Net sales	15	3 798
Operating result	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
Acquired assets to fair value	43
Goodwill	-18
	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.

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

Long-term construction contracts

MEUR	2008	2007
Net sales in the income statement	544	372

Long-term construction projects in progress

MEUR	2008	2007
Cumulative net sales	1 215	727
Cumulative result	160	82
Advances received at 31 December	922	524
Receivables from the revenue recognition netted with the advances received at 31 December	160	74

Long-term operating and maintenance agreements

MEUR	2008	2007
Net sales in the income statement	207	171

4. Other income

MEUR	2008	2007
Rental income	1	1
Profit on sales of fixed assets	9	7
Government grants	6	6
Sale of by-products	4	3
Other income	6	4
Total	26	21

5. Material and services

MEUR	2008	2007
Raw material and consumables		
Purchases during the financial year	-1 981	-1 369
Change in inventories	186	129
External services	-1 204	-1 009
Total	-2 999	-2 249

6. Employee benefit expenses

MEUR	2008	2007
Wages and salaries	693	592
Pension costs		
Defined benefit plans	8	8
Other pension and past service costs	49	43
Other compulsory personnel costs	103	85
Total	854	728

Salaries paid to the management are specified in Note 30.

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

The 2006 bonus scheme comprises 650,000 bonus rights and the 2007 bonus scheme 712,500 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 42.89 for the 2006 bonus scheme. In the 2007 bonus scheme the bonus payment is based on the share price development during a two-year and nine months period on the basis of a share price of EUR 22.63. Both bonus schemes are taking into account a 50% dividend payout. The bonus can not exceed EUR 6 per bonus right for the 2006 bonus scheme and EUR 9 per bonus right for the 2007 bonus scheme.

The Board of Directors has also verified a bonus scheme for 2008. The bonus payment is based on the share price development during a two-year period on the basis of a share price of EUR 23.04. The bonus cannot exceed EUR 15 per bonus right.

	2008	2007
Personnel on average	17 623	15 337

7. Depreciation and amortization

Depreciation according to plan and amortization

MEUR	2008	2007
Intangible rights	6	4
Other intangible assets	37	26
Buildings and structures	9	9
Machinery and equipment	45	37
Other tangible assets	2	2
Total depreciation according to plan and amortization	99	78

8. Financial income and expenses

MEUR	2008	2007
Dividend income on investments available for sale	7	7
Interest income on loans and other receivables	9	8
Interest income on financial assets/liabilities at fair value through income statement	19	8
Changes in fair values of financial assets/liabilities at fair value through income statement		1
Exchange rate differences ¹	1	2
Other financial income	2	1
Total financial income	38	26

Interest expenses on financial liabilities measured at amortized cost	-27	-18
Interest expenses on financial assets/liabilities at fair value through income statement	-12	-13
Changes in fair values of financial assets/liabilities at fair value through income statement	-5	
Other financial expenses	-3	-2
Total financial expenses	-47	-34

Total financial income and expenses	-9	-8
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¹ Includes the result from the ineffective portion of cash flow hedges, EUR -2 million.

9. Income taxes

MEUR	2008	2007
Income taxes		
for the financial year	-138	-88
for prior years	13	5
Change in deferred taxes	-2	-23
Total	-127	-106
Profit before taxes	516	372
Tax calculated at the domestic corporate tax rate (26%)	-134	-97
Effect of changed tax rates	6	2
Effect of different tax rates in foreign subsidiaries	-1	-1
Effect of income not subject to tax and non-deductible expenses	-9	-5
Utilization of previously unrecognized tax losses carried forward	5	3
Unrecognized taxes on losses carried forward	-5	-5
Other taxes	-9	-8
Other temporary differences	8	-2
Income taxes for prior years	13	5
Taxes in the consolidated income statement	-127	-106

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.

MEUR	2008	2007
Profit attributable to equity holders of the parent company (undiluted/diluted)	380	262
Thousands of shares		
Weighted average number of shares outstanding	97 994	95 751
Effect of issued share options	11	206
Diluted weighted average number of shares outstanding	98 005	95 957
Undiluted earnings per share (EUR)	3.88	2.74
Diluted earnings per share (EUR)	3.88	2.73

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	
	2008	2007
Automation	36	36
Ship design	124	4
Other acquired companies	7	33
Power Businesses, other	383	372
Total	549	445

The recoverable amounts from the CGUs are determined based on value-in-use calculations. The calculations are on an orderbook and 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 is 2%.

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 10.4% (2007: 9.2%) in the calculations.

As a result of the impairment test no impairment loss was recognized for the period ended December 31, 2007 and 2008 respectively.

Sensitivity analysis

Sensitivity analyses have been carried out for the valuation of each Cash Generating Unit by making downside scenarios. The change in the enterprise value was evaluated through these downside scenarios by changing the underlying assumptions in the valuations. The changes in the assumptions and their effects are:

- Sales growth lowered by 15%, effect 8%
- Terminal growth rate lowered by 50%, effect 11%
- EBIT profitability lowered by 10%, effect 11%
- WACC increased by 15%, effect 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, 2008. 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.

Intangible assets

MEUR	Intangible rights	Construction in progress & advances paid	Other intangible assets	Goodwill	Total 2008
Acquisition cost at 1 January 2008	68	14	297	445	824
Changes in exchange rates	-1		-7	-21	-30
Acquisitions			65	127	191
Additions	6	14	9		29
Disposals and reclassifications		-9	4		-5
Acquisition cost at 31 December 2008	73	19	368	549	1 009
Accumulated amortization at 1 January 2008	-32		-146		-178
Accumulated amortization on disposals			4		4
Amortization during the financial year	-6		-37		-42
Accumulated amortization at 31 December 2008	-37		-179		-216
Book value at 31 December 2008	37	19	188	549	793

Developing costs amounted to EUR 6 million (7) were activated during the financial period and are included in the "Intangible rights".

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
Reclassification	-19	-3	22		
Acquisition cost at 31 December 2007	68	14	297	445	824
Accumulated amortization at 1 January 2007	-29		-118		-147
Amortization during the financial year	-4		-26		-30
Reclassification	2		-2		
Accumulated amortization at 31 December 2007	-32		-146		-178
Book value at 31 December 2007	37	14	151	445	646

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 2008
Acquisition cost at 1 January 2008	14	203	529	64	60	13	884
Changes in exchange rates			-6	-2	-2		-9
Acquisitions	1	3	5				9
Additions	8	18	72	36	5		139
Disposals		-4	-25	-4	-1	-2	-35
Joint ventures		-3	-1	-3			-6
Reclassification		10	25	-33	-1		
Acquisition cost at 31 December 2008	23	225	600	59	62	11	980
Accumulated depreciation at 1 January 2008		-103	-355		-47		-506
Changes in exchange rates			5				6
Accumulated depreciation on disposals		3	18				22
Depreciation during the financial year		-9	-45		-2		-57
Reclassification			-2		3		
Accumulated depreciation at 31 December 2008		-108	-378		-46		-533
Book value at 31 December 2008	23	117	221	59	15	11	446
Value of finance-leased assets included in book value		2	11		1		14

Investment properties include land areas not used by the Group. Their estimated market value is around EUR 30 million. During the period, investment properties were sold totalling EUR 4 million (12) generating a profit of EUR 2 million (6).

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
Reclassification		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
Reclassification		-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

During the review period investment in the enlargement of propulsion equipment manufacturing in the Netherlands and China amounted to EUR 12 million, and Wärtsilä had commitments related to the enlargements amounting to EUR 6 million. In addition, Wärtsilä centralizes warehousing and logistics of spare parts by investing in a new distribution centre in the Netherlands. The investments to the new distribution centre amounted to EUR 11 million during the review period.

13. Investments in associated companies and joint ventures

MEUR	2008	2007
Book value at 1 January	16	9
Acquired shares	1	12
Share of results		1
Dividends	-1	-1
Changes in exchange rates	2	
Joint ventures ¹	22	
Selling/decrease of shares		-5
Book value at 31 December	41	16

¹ Due to the change in accounting principles for joint ventures.

Summary financial information on associates (100%):

2008

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Qingdao Qiyao Wärtsilä MHI							
Lindhan Marine Diesel Co Ltd.	China	27.0	143	94	49		-3
Wärtsilä Navim Diesel S.r.l.	Italy	40.0	23	14	9	46	4
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	2	1	1	2	
WD Power Investment Ky	Finland	21.7	4		4		
Neptun Maritime AS	Norway	40.0	1			1	
EI-Design AS	Norway	37.0					
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	3	2	1	5	

2007

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Oy Ovako Ab ²	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		
Cosco-Shipyard Total Automation Co Ltd.	China	40.0	1		1	2	

² Oy Ovako Ab was liquidated during 2008.

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).

Wärtsilä and Hyundai Heavy Industries Co Ltd. set up a joint venture, Wärtsilä Hyundai Engine Co Ltd., which manufactures dual-fuel engines for LNG carriers. Wärtsilä's ownership of the company is 50%.

Summary financial information on joint ventures (100%):

2008

MEUR		Holding %	Assets	Liabilities	Equity	Net sales	Profit for the period
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	31	22	9	37	
Wärtsilä Hyundai Engine Co Ltd.	Korea	50.0	86	51	35	18	-2

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		

The Group's holdings in joint ventures have earlier been consolidated proportionately line by line so that the consolidated financial statements include the Group's share of its joint venture's assets, liabilities, income and expenses. Since 2008 have the holdings in joint ventures been consolidated in the financial statements using the equity method.

The income statement, balance sheet and notes to the Group's consolidated financial statements for year 2007 have not been adjusted due to the adjustments are not considered material.

If the adjustments had been done to the consolidated financial statements the impact to the income statement and the balance sheet would have been as follows:

MEUR	
Group's income statement 2007	
Operating result	1
Financial income and expenses	-1
Profit for the financial period	
Group's balance sheet at 31 December 2007	
Assets	
Property, plant and equipment	-7
Equity in associates and joint ventures	21
Inventories	-2
Other receivables	6
Cash and cash equivalents	-18
Assets, total	
Shareholders' equity and liabilities	
Current interest-bearing debt	-1
Current other liabilities	1
Shareholders' equity and liabilities, total	

15. Investments available for sale

Investments available for sale 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	2008	2007
Book value at 1 January	155	183
Changes in exchange rates	1	-2
Additions	6	
Disposals	-5	-2
Fair value adjustment	-50	-25
Book value at 31 December	106	155

MEUR	Acquisition cost	2008 Market value	Acquisition cost	2007 Market value
Shares				
Sampo plc	4	25	4	34
Assa Abloy AB	18	59	18	100
Listed shares	22	84	22	134
Other shares	21	21	21	21
Total shares	43	106	43	155

16. Inventories

MEUR	2008	2007
Materials and consumables	741	545
Work in progress	684	399
Finished goods	56	51
Advances paid	175	86
Total	1 656	1 081

17. Financial assets and liabilities by measurement category

2008	Cash flow and net investment hedges	Financial assets/liabilities at fair value through income statement	Loans and receivables	Investments available for sale	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value
MEUR							
Non-current financial assets							
Investments available for sale				106		106	106
Interest-bearing investments			11			11	11
Trade receivables			3			3	3
Other receivables			4			4	4
Current financial assets							
Interest-bearing receivables			1			1	1
Trade receivables			891			891	891
Derivatives	56	13				69	69
Other receivables		90				90	90
Cash and cash equivalents		197				197	197
Carrying amount by category	56	300	910	106		1 372	1 372
Non-current financial liabilities							
Interest-bearing debt					448	448	447
Other liabilities					1	1	1
Current financial liabilities							
Interest-bearing debt					216	216	216
Trade payables					444	444	444
Derivatives	40	22				62	62
Other liabilities					85	85	85
Carrying amount by category	40	22			1 194	1 256	1 255
2007							
MEUR		Financial assets/liabilities at fair value through income statement	Loans and receivables	Investments available for sale	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value
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

18. Other receivables

MEUR	2008	2007
Interest receivables	1	1
Other financial items	89	29
Insurance receivables	4	2
Rental receivables	6	4
Project accruals	18	11
Other accruals	50	37
Loan receivables	4	16
VAT receivables	90	57
Defined benefit plan	7	
Accruals from long-term contracts*	160	
Other receivables	68	51
Total	498	208
Non-current	12	7
Current	486	201

* In 2007 accruals from long-term contracts of EUR 74 million was included in trade receivables.

19. Cash and cash equivalents

MEUR	2008	2007
Cash and bank balances	183	274
Financial assets	14	23
Total	197	296

20. Deferred taxes

Change in deferred taxes during 2008

MEUR	1 January 2008	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions	31 December 2008
Deferred tax assets						
Tax loss carry-forwards	24	-1				23
Pension obligations	3					3
Provisions	15	-6				10
Fair value reserve			11	1		11
Eliminating the intra group profit in stock	14	1				14
Other temporary differences	15	10				24
Total	70	3	11	1		85
Deferred tax liabilities						
Intangible assets and property, plant and equipment	16	5		-1	13	34
Fair value reserve	42		-18			23
Other temporary differences	23			-1	7	29
Total	81	5	-18	-3	20	86
Net deferred tax assets/liabilities	-11	-2	29	3	-20	

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 reserve	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

At 31 December 2008 the Group had temporary differences on which no deferred tax receivables were booked totalling EUR 52 million (40), as it is uncertain if they will be realized. Most of them were related to cumulative losses.

21. Pension obligations

MEUR	2008	2007
Recognized asset for defined benefit plan at 31 December	7	
Recognized liability for defined benefit obligations	17	20
Long-service leave and other past service obligations	23	25
Total past service obligations at 31 December	40	45

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.

Since 1 January 2008 IFRIC 14 has been applied which lead to EUR 5 million increase in shareholders' equity.

During the year 2007 one defined benefit pension plan in the Netherlands 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.

Movement in defined benefit obligations	2008	2007
Defined benefit obligations at 1 January	212	307
Exchange rate differences	5	-6
Current service costs	9	9
Interest cost	8	8
Benefits paid	-10	-12
Changes in actuarial gains and losses		-5
Impact of acquired and disposed companies and other changes	6	-89
Defined benefit obligations at 31 December	229	212

Movement in plan assets	2008	2007
Fair value of plan assets at 1 January	202	295
Exchange rate differences	9	-5
Contribution paid to the fund	13	12
Benefits paid by the plan	-9	-12
Expected return on plan assets	10	9
Actuarial gains and losses	-28	-2
Impact of acquired and disposed companies and other changes	2	-94
Fair value of plan assets at 31 December	198	202
Unrecognised assets		-5
Recognized fair value of plan assets at 31 December	198	197

Unrecognized actuarial gains and losses	2008	2007
Unrecognised actuarial gains and losses at beginning of year	5	-5
Exchange rate differences	2	
Actuarial gains and losses for year—obligation	-1	8
Actuarial gains and losses for year—plan assets	-28	-2
Impact of acquired/disposed companies and other changes	1	5
Unrecognized actuarial gains and losses at the year end	-21	5
Recognized net liability for defined benefit obligations	10	20

Expenses recognized in income statement	2008	2007
Current service costs	9	9
Interest on obligation	8	8
Expected return on plan assets	-10	-9
Actuarial gains and losses	1	
Gains and losses on curtailments and settlements		-1
Defined benefit expenses	8	8

Actual return on plan assets -17 6

Historical information	2008	2007	2006	2005
Present value of the defined benefit obligation	229	212	307	293
Fair value of plan assets	-198	-202	-295	-292
Deficit in the plan	31	9	12	1

Actuarial assumptions 2008	Europe	Other
Discount rate (%)	3.25–6.5	1.5–16.0
Expected return on plan assets (%)	4.0–7.5	1.5–10.0
Future salary increases (%)	1.5–4.5	1.2–14.0

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

22. Share capital of the parent company

Share capital	Number of A-shares	Number of B-shares	Number of shares, total	Share capital	Share issue premium	Total
1 January 2007	23 579 587	71 974 765	95 554 352	334	58	392
Options exercised		415 209	415 209	1	3	4
31 December 2007	23 579 587	72 389 974	95 969 561	336	61	397
Options exercised		31 050	31 050			
Combination of share series and free share issue	-23 579 587	26 199 541	2 619 954			
31 December 2008			98 620 565	336	61	397

23. Option rights

Changes in option rights 2008	Option scheme 2002	
	Option rights	Shares based on option rights
1 January 2008	20 702	31 053
Shares subscribed with option rights	20 700	31 050
31 December 2008	-	-

Option rights for management

The AGM on 12 March 2002 approved 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 ended 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 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 2002 options is EUR 5.40.

24. Fair value reserve

MEUR	Cash flow hedges	Investments available for sale	Total
Difference between fair value and book value at 1 January 2007	36	137	173
Deferred tax liabilities	-9	-36	-44
Fair value reserve at 1 January 2007	27	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 reserve at 31 December 2007	44	84	127
Transferred to income statement, net of taxes	-22		-22
Fair value adjustments	-28	-50	-78
Deferred tax liabilities/assets	10	13	23
Fair value reserve at 31 December 2008	4	47	50

25. Provisions

2008

MEUR	Litigation	Warranty liabilities	Foreseeable losses	Restructuring	Other provisions	Total 2008
Provisions at 1 January 2008	7	107	12	6	31	164
Changes in exchange rates		1				
Additions	1	70	10		7	88
Used provisions		-40	-5		-12	-58
Released provisions			-2	-1	-5	-8
Provisions at 31 December 2008	8	138	16	5	23	189

Non-current

24

Current

165

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

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

2008

MEUR	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Loans from financial institutions ¹	61	235	199	495
Finance lease liabilities	4	9	2	14
Other interest-bearing loans	152	3		155
Non-interest-bearing loans	1			1
Trade payables	444			444
Derivatives	62			62
Other liabilities	85			85
Total	808	246	201	1 255

¹ Estimated interest expenses

26 50 16 91

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

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

27. Other liabilities

MEUR	2008	2007
Project costs	451	360
Personnel costs	115	113
Interest and other financial items	85	23
Other accruals	85	61
Other liabilities	84	53
Total	820	608

Non-current

1 3

Current

819 605

28. Financial instruments

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

MEUR	2008	of which closed	2007	of which closed
Nominal values of derivative financial instruments				
Interest rate swaps	140		140	
Currency forwards				
Transaction risk	1 553	471	1 005	214
Translation risk	341		279	
Currency options, purchased	50		34	
Total	2 084	471	1 458	214
Fair values of derivative financial instruments				
Interest rate swaps	-2		2	
Currency forwards				
Transaction risk	13		21	
Translation risk			1	
Total	11		24	

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 18 months.

Currency distribution of currency forwards and currency options

MEUR	Outstanding offers	Order book	Net loans	Translation risk
Currency forwards				
USD	7	680	17	75
NOK		294	11	76
CHF		56	80	
SGD			12	55
JPY		100	6	23
GBP		7	33	16
Other*		43	51	91
	7	1 180	210	336
Currency options				
USD		50		
Total	7	1 230	210	336

* Other does not include any material single currencies.

Commodity derivatives

	Amount in metric tons	of which closed	Fair value MEUR
Oil swaps	17 700	12 000	-1
Copper futures	1 250		-3

29. Collateral, contingent liabilities and other commitments

MEUR	2008		2007	
	Debt in balance sheet	Collateral	Debt in balance sheet	Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	2	2	3	3
Loans from pension institutions	34	49	3	5
Other commitments		10	5	5
Total	36	61	11	13
Chattel mortgages given as collateral for liabilities and commitments				
Loans from credit institutions				3
Other commitments		10	4	5
Total		10	4	8
MEUR				
	2008		2007	
Guarantees and contingent liabilities on behalf of Group companies	664		479	
Nominal amounts of rents according to leasing contracts				
Payable within one year	21		16	
Payable later	66		53	
Total	87		69	

30. Related party disclosures

Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associated companies and the joint ventures.

Salaries and bonuses paid to management

In thousands of euro	2008	2007
President and CEO and his deputy		
Salaries and other short-term benefits	884	826
Bonuses	252	858
	1 136	1 684
Other members of the Board of Management		
Salaries and other short-term benefits	1 277	1 064
Bonuses	391	1 231
	1 668	2 295
Board of Directors, 31 December 2008		
Antti Lagerroos, chairman	121	119
Matti Vuoria, deputy chairman	88	58
Maarit Aarni-Sirviö, member	59	55
Kaj-Gustaf Berg, member	56	
Kari Kauniskangas, member	56	
Bertel Langenskiöld, member	57	56
Board of Directors, until 19 March 2008		
Göran J. Ehrnrooth, deputy chairman	3	82
Heikki Allonen, member	2	58
Board of Directors, until 14 March 2007		
Risto Hautamäki, member		2
Jaakko Iloniemi, member		3
	442	433
Salaries and bonuses paid to management, total	3 246	4 412

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

Shares	56 479	111 818
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The President and CEO and some of 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.

Business transactions with the associated companies and joint ventures

MEUR	2008	2007
Sales to the associates and joint ventures in the income statement	34	23
Receivables from the associates and joint ventures in the balance sheet	22	6
Advances paid to the associates and joint ventures in the balance sheet	29	15
Payables to the associates and joint ventures in the balance sheet	12	

Detailed financial information of the associated companies is presented in Note 13. Investments in associated companies. Detailed financial information of the joint ventures is presented in Note 14. Joint ventures.

31. Auditors' fees and services

The following remuneration was paid to auditors and accounting firms for audits and other reviews based on applicable legislation and for advice as well as for independent advice.

In 2008 the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditors.

MEUR	KPMG		Others	
	2008	2007	2008	2007
Audit fees	1.7	1.7	0.1	0.2
Statement fees	0.1			
Tax advisor fees	1.1	0.7	0.2	0.1
Other fees	1.0	2.4	0.3	0.2
Total	4.0	4.7	0.6	0.5

32. Exchange rates

	Closing rate 31 Dec. 2008	Closing rate 31 Dec. 2007	Average rate 2008	Average rate 2007
USD	1.39170	1.47210	1.47059	1.37063
GBP	0.95250	0.73335	0.79654	0.68455
SEK	10.87004	9.44153	9.61688	9.25214
NOK	9.75001	7.95798	8.22484	8.01828
DKK	7.45062	7.45829	7.45595	7.45080
CHF	1.48500	1.65470	1.58708	1.64269
JPY	126.13522	164.93486	152.33000	161.23917
SGD	2.00400	2.11630	2.07614	2.06363
INR	67.94402	57.86367	64.07155	56.58386

33. Subsidiaries

Company name	Location	Share %	Company name	Location	Share %
Wärtsilä Technology Oy Ab	Finland	100.0	Wärtsilä Dominicana, Inc.	Dominican Republic	100.0
Wärtsilä Finland Oy	Finland	100.0	Wärtsilä Guatemala S.A.	Guatemala	100.0
Wärtsilä Biopower Oy	Finland	100.0	Wärtsilä Chile Ltda.	Chile	100.0
Wärtsilä Development & Financial Services Oy	Finland	100.0	Wärtsilä Ecuador S.A.	Ecuador	100.0
Wärtsilä Sweden AB	Sweden	100.0	Wärtsilä do Brasil Ltda.	Brazil	100.0
Wärtsilä Norway A/S	Norway	100.0	Wärtsilä Colombia S.A.	Colombia	100.0
Vik-Sandvik A/S	Norway	100.0	Wärtsilä Peru S.A.	Peru	100.0
Wärtsilä Danmark A/S	Denmark	100.0	Wärtsilä Argentina S.A.	Argentina	100.0
Wärtsilä Italia S.p.A.	Italy	100.0	Wärtsilä Venezuela, C.A.	Venezuela	100.0
Wärtsilä France S.A.S.	France	100.0	Wärtsilä Panama, S.A.	Panama	100.0
Wärtsilä Defence S.A.S.	France	100.0	Wärtsilä Australia Pty Ltd.	Australia	100.0
Whessoe S.A.	France	100.0	Wärtsilä China Ltd.	Hong Kong	100.0
Wärtsilä Switzerland Ltd.	Switzerland	100.0	Wärtsilä-CME Zhenjiang Propeller Co. Ltd	China	55.0
Wärtsilä Nederland B.V.	The Netherlands	100.0	Wärtsilä Engine (Shanghai) Co Ltd	China	100.0
Wärtsilä Propulsion Netherlands B.V.	The Netherlands	100.0	Wärtsilä Shanghai Services Ltd.	China	100.0
DTS-Zwolle B.V.	The Netherlands	100.0	Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	100.0
Wärtsilä Ibérica S.A.	Spain	100.0	Wärtsilä Singapore Pte Ltd.	Singapore	100.0
Wärtsilä Portugal Lda.	Portugal	100.0	Wärtsilä Automation Services Singapore Pte Ltd.	Singapore	100.0
Wärtsilä Deutschland GmbH	Germany	100.0	Wärtsilä Japan Company Ltd	Japan	99.7
Wärtsilä Ship Design Germany GmbH	Germany	100.0	Wärtsilä India Ltd	India	98.5
Wärtsilä UK Ltd	Great Britain	100.0	Wärtsilä Vietnam Ltd.	Vietnam	100.0
Whessoe Total Automation Ltd.	Great Britain	100.0	Wärtsilä Korea Ltd.	South Korea	100.0
Vulcan Insurance Ltd.	Great Britain	100.0	Wärtsilä Taiwan Ltd.	Taiwan	100.0
Wärtsilä Greece S.A.	Greece	100.0	Wärtsilä Philippines Inc.	Philippines	100.0
Wärtsilä Ireland Ltd.	Ireland	100.0	PT. Wärtsilä Indonesia	Indonesia	100.0
Wärtsilä Polska Sp.z.o.o.	Poland	100.0	Wärtsilä Lanka	Sri Lanka	100.0
Vik-Sandvik Poland Sp.z.o.o.	Poland	100.0	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0
Wärtsilä-Enpa A.S.	Turkey	51.0	Wärtsilä Bangladesh Ltd.	Bangladesh	100.0
Wärtsilä BLRT Estonia Oü	Estonia	51.7	Wärtsilä Azerbaijan LLC	Azerbaijan	100.0
Wärtsilä BLRT Services Klaipeda UAB	Lithuania	51.0	Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	60.0
Wärtsilä Vostok LLC	Russia	100.0	Wärtsilä Gulf FZE	United Arab Emirates	100.0
Wärtsilä North America, Inc.	USA	100.0	Wärtsilä Arab Mediterranean Power Ltd	Egypt	100.0
Wärtsilä Defence Inc.	USA	100.0	Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0
Wärtsilä Development & Financial Services Inc.	USA	100.0	Wärtsilä Eastern Africa Ltd	Kenya	100.0
Wärtsilä Canada Inc.	Canada	100.0	Wärtsilä West Africa S.A.	Senegal	100.0
Wärtsilä de Mexico SA	Mexico	100.0	Wärtsilä Central Africa S.A.	Cameroon	100.0
Wärtsilä Caribbean, Inc.	Puerto Rico	100.0			

A complete list of shares and securities in accordance with the Accounting Ordinance is included in the official financial statements of the parent company.

34. Financial risks

General

Wärtsilä has a centralized Group Treasury with two main objectives:

1) it arranges adequate funding for the Group's underlying operations on competitive terms, 2) it identifies and evaluates the financial risks within the Group and implements the hedges for the Group companies.

The objective is to hedge against unfavorable 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 2009. The cancellation of orders might lead to ineffective currency hedge. Some 72% of sales and 70% of operating costs in 2008 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.

Some Group companies in countries whose currencies are not fully convertible like Brazil and China have unhedged intercompany loans nominated either in EUR or USD. Total amount of the loans is EUR 37 million.

Since Wärtsilä has subsidiaries outside the euro zone, the Group's shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2008 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 419 million, of which EUR 335 million was hedged. The ineffective portion of the equity hedges was not significant.

IFRS hedge accounting has been applied to EUR 1,037 million currency forwards. 10% change in the exchange rates would cause from these currency forwards an approximately EUR 77 million after tax influ-

Currency distribution 2008

	Net sales	Operating cost	Trade receivables	Trade payables
Euro	72%	70%	74%	81%
USD	11%	6%	13%	3%
NOK	3%	7%	3%	2%
CHF	1%	3%	1%	2%
Other EU currencies	2%	4%	2%	3%
SGD	2%	2%	2%	1%
CNY	1%	2%		1%
JPY	1%	1%	1%	4%
Other currencies	7%	6%	4%	3%
	100%	100%	100%	100%

ence on the shareholders' equity. In 2008 EUR -18 million fair value adjustments related to cash flow hedges were booked in equity. EUR 22 million of the fair value adjustments were transferred from equity to the income statement as net sales or operating expenses during 2008. The result from ineffective portion of the cash flow hedges, EUR -2 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 directly 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 2008 totalled EUR 664 (283) million. The average interest rate was 4.1% (4.9) and the average re-fixing time 11 (7) months. Additional information on debt is provided in Notes 17 and 26. At the end of 2008 a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 7 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 2008 the floating rate portion of total loans was 61% after adjustment for interest rate derivatives. A one percentage point change in the interest level would cause a EUR 4 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 410 million.
- Finnish Commercial Paper programmes totalling EUR 600 million.

In addition Wärtsilä has signed a EUR 30 million long-term loan agreement. This loan was disbursed in January 2009.

The average maturity of the long-term loans is 60 months and the average maturity of the confirmed credit lines is 35 months. Additional information in Note 26.

Wärtsilä Group's liquidity is good. Wärtsilä had cash and cash equivalents totalling EUR 197 million at the year end as well as EUR 360 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.

Revolving credit facilities

MEUR Year	Maturing	Available (end of period)
2008		410
2009	25	385
2010	190	195
2011	15	180
2012	35	145
2013	95	50
2014		50
2015	50	

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 did not have long-term suppliers' credits at the end of 2008. No losses were recorded on suppliers' credits.

Wärtsilä has a Vendor Note receivable and some other minor receivables totalling EUR 9 million, maturing within 4 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's 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	2008		2007	
	Trade receivables	of which impaired	Trade receivables	of which impaired
Not past due	543		520	
Past due 1–30 days	128		148	
Past due 31–180 days	157	1	149	2
Past due 181–360 days	43	2	31	3
Past due 1 year	53	27	44	13
Total	924	30	892	18

In 2008, EUR 14 million provision for doubtful receivable has been recognized 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 2008 was EUR 84 million. 10% strengthening or weakening in share price has EUR +/- 6 million impact on Group's shareholders' equity after taxes.

Wärtsilä also has equity investments totalling EUR 12 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	31.12.2008	31.12.2007
Balance sheet total	4 743	3 749
Advances received	-1 243	-860
	3 500	2 889
Total shareholders' equity	1 199	1 325
Solvency ratio, %	34.3	45.9
In the capital management Wärtsilä also follows the gearing development:		
Interest-bearing liabilities, non-current	448	245
Interest-bearing liabilities, current	216	38
Cash and cash equivalents	-197	-296
	467	-13
Loan receivables	-12	-14
Net interest-bearing loan capital	455	-27
Gearing	0.39	-0.01

Parent Company Financial Statements

Parent Company Income Statement (FAS)

MEUR	Note	2008	2007
Net sales	1		3
Other operating income	2	78	73
Personnel expenses	3	-32	-32
Depreciation and amortization	4	-11	-11
Other operating expenses		-83	-82
Operating result		-48	-49
Financial income and expenses	5		
Income from financial assets		49	40
Interest income and other financial income		58	51
Exchange gains and losses		9	20
Interest expenses and other financial expenses		-53	-33
		64	78
Result before extraordinary items		16	29
Group contribution	6	301	169
Result before appropriations and taxes		317	198
Change in depreciation difference		-1	-1
Result before taxes		316	197
Income taxes	7	-70	-38
Result for the financial period		246	159

Parent Company Balance Sheet (FAS)

MEUR	Note	31 Dec. 2008	31 Dec. 2007
ASSETS			
Fixed assets	8		
Intangible assets			
Other long-term expenditure		33	35
Construction in progress		14	11
		47	46
Tangible assets			
Land and water		6	7
Buildings and structures		1	1
Machinery and equipment		2	1
Other tangible assets		1	1
Construction in progress		2	3
		12	13
Financial assets			
Shares in Group companies		450	450
Loan receivables from Group companies		2	1
Receivables from associated companies			1
Other shares and securities		19	20
		471	472
Fixed assets and other non-current financial assets		531	531

MEUR	Note	31 Dec. 2008	31 Dec. 2007
Non-current receivables	9		
Receivables from Group companies		97	38
Loan receivables		11	12
		108	50
Current receivables			
Receivables from Group companies	10	1 585	1 206
Loan receivables		1	22
Other receivables		4	5
Prepaid expenses and accrued income	11	87	29
		1 677	1 263
Cash and bank balances		77	180
Total current assets		1 862	1 493
Assets		2 393	2 024

Parent Company Balance Sheet (FAS)

MEUR	Note	31 Dec. 2008	31 Dec. 2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	12		
Share capital		336	336
Share premium reserve		61	61
Retained earnings		169	418
Result for the financial period		246	159
Total shareholders' equity		812	974
Accumulated appropriations			
Depreciation difference		7	7
Provisions	13		3
Liabilities	14		
Non-current			
Loans from financial institutions		317	210
Loans from pension institutions		96	4
		413	214
Current			
Loans from financial institutions		43	7
Loans from pension institutions		4	8
Trade payables		4	5
Liabilities to Group companies	16	871	773
Other current liabilities		143	5
Accrued expenses and deferred income	15	96	29
		1 161	827
Total liabilities		1 574	1 041
Shareholders' equity and liabilities		2 393	2 024

Parent Company Cash Flow Statement (FAS)

MEUR	2008	2007
Cash flow from operating activities:		
Operating result	-48	-49
Adjustments for:		
Depreciation and amortization	11	11
Selling profit and loss of fixed assets	-3	-10
Cash flow before changes in working capital	-40	-47
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	-74	-33
Liabilities, non-interest-bearing, increase (+) / decrease (-)	79	11
	6	-23
Cash flow from operating activities before financial items and taxes	-34	-70
Interest and other financial expenses	-78	-51
Dividends received from operating activities	43	34
Interest and other financial income from operating activities	104	69
Income taxes	-60	-84
	10	-32
Cash flow from operating activities	-24	-102

MEUR	2008	2007
Cash flow from investing activities:		
Investments in tangible and intangible assets	-14	-22
Proceeds from sale of investments	2	5
Proceeds from sale of tangible and intangible assets	4	
Loan receivables, increase (-) / decrease (+) and other changes		2
Dividends received from investments	6	6
Cash flow from investing activities	-3	-10
Cash flow after investing activities	-27	-111
Cash flow from financing activities:		
Options exercised		4
Loans receivable, increase (-) / decrease (+)	-269	-43
Current loans, increase (+) / decrease (-)	201	284
New non-current loans	246	55
Amortization and other changes of non-current loans	-16	-24
Group contributions	169	102
Paid dividends	-408	-167
Cash flow from financing activities	-76	212
Change in cash and bank balances, increase (+) / decrease (-)	-103	101
Cash and bank at beginning of period	180	79
Cash and bank at end of period	77	180

Accounting Principles for the Parent Company

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

The accounting principles are unchanged compared to the previous year.

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

■ Transactions denominated in foreign currencies

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

■ Research and development costs

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

■ Receivables

Receivables are valued to acquisition cost or to a lower probable value.

■ Fixed assets and depreciation

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

Depreciation is based on the following useful lives:

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

■ Leasing

Lease payments are treated as rentals.

■ Extraordinary income and expenses

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

■ Provisions

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

■ Income taxes

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

■ Dividends

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

Notes to the Parent Company Financial Statements

1. Net sales by country

MEUR	2008	2007
Finland		3

2. Other operating income

MEUR	2008	2007
Rental income	2	2
Profit on sales of fixed assets	3	10
Services to Group companies	72	58
Other operating income	1	3
Total	78	73

3. Personnel expenses

MEUR	2008	2007
Wages and salaries	24	26
Pension costs	5	4
Other compulsory personnel costs	2	2
Total	32	32

Salaries and remunerations to senior management the President and CEO and his deputy and members of the Board of Directors

2 2

The President and CEO and some of the members of the Board of Management have the right to retire at the age of 60 years.

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

Personnel on average 361 298

4. Depreciation and amortization

MEUR	2008	2007
Depreciation according to plan		
Other long-term expenditure	11	10
Buildings and structures		1
Machinery and equipment		1
Total depreciation according to plan	11	11
Total book depreciation	12	13
Depreciation difference	-1	-1
Amortization of fixed assets		
Depreciation difference on 1 January	7	5
Change in the depreciation difference	1	1
Depreciation difference on 31 December	7	7

5. Financial income and expenses

MEUR	2008	2007
Dividend income		
from Group companies	43	34
from other companies	6	6
Total	49	40
Other interest income		
from Group companies	54	45
from other companies	4	4
Total	58	49
Other financial income		
from Group companies	8	12
from other companies	19	8
Total	27	20
Exchange gains and losses	9	20
Interest expenses		
to Group companies	-32	-23
to other companies	-21	-12
Total	-53	-35
Other financial expenses		
to Group companies	-8	-1
to other companies	-19	-15
Total	-27	-16
Financial income and expenses, total	64	78

6. Extraordinary income and expenses

MEUR	2008	2007
Group contributions received	301	169

7. Income taxes

MEUR	2008	2007
Income taxes for the financial year for prior years	-70	-40
Total	-70	-38
Income taxes on extraordinary items	78	44

8. Fixed assets

Intangible assets

MEUR	Other long-term expenditure	Construction in progress	Total 2008	Total 2007
Acquisition cost at 1 January	92	11	103	86
Additions	2	10	12	17
Reclassifications	7	-7		
Acquisition cost at 31 December	101	14	116	103
Accumulated amortization at 1 January	-57		-57	-47
Amortization during the financial year	-11		-11	-10
Accumulated amortization at 31 December	-67		-68	-57
Book value at 31 December 2008	33	14	47	
Book value at 31 December 2007	35	11		46

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress	Other tangible assets	Total 2008	Total 2007
Acquisition cost at 1 January	7	11	11	3	2	35	38
Additions		1	1			2	3
Disposals	-1	-1			-1	-3	-6
Reclassifications				-1	1		
Acquisition cost at 31 December	6	11	13	2	2	34	35
Accumulated depreciation at 1 January		-10	-11		-1	-22	-23
Accumulated depreciation on disposals and transfers		1				1	2
Depreciation during the financial year							-1
Accumulated depreciation at 31 December		-10	-11		-1	-22	-22
Book value at 31 December 2008	6	1	2	2	1	12	
Book value at 31 December 2007	7	1	1	3	1		13

Shares and securities

MEUR	Shares in Group companies	Receivables from Group companies	Receivables from associated companies	Shares in other companies	Total 2008	Total 2007
Acquisition cost at 1 January	450	1	1	20	472	473
Additions		1			1	
Disposals			-1	-1	-2	-1
Acquisition cost at 31 December	450	2		19	471	472
Book value at 31 December 2008	450	2		19	471	
Book value at 31 December 2007	450	1	1	20		472

9. Non-current receivables

MEUR	2008	2007
Receivables from Group companies		
Non-current investments	2	1
Loan receivables	97	38
Total	99	39
Receivables from associated companies		
Non-current investments		1
Total		1

10. Current receivables from Group companies

MEUR	2008	2007
Trade receivables	3	33
Loan receivables	1 523	1 162
Prepaid expenses and accrued income	59	11
Total	1 585	1 206

11. Main items in prepaid expenses and accrued income

MEUR	2008	2007
Interest	1	1
Other financial items	85	27
Other items		2
Total	87	29

12. Shareholders' equity

MEUR	2008	2007
Share capital		
Share capital on 1 January		
Series A		83
Series B		252
Total	336	334
Options exercised		1
Total		1
Share capital on 31 December		
Series A		83
Series B		253
Total	336	336
Share premium reserve		
Share premium reserve on 1 January	61	58
Issue premium		3
Share premium reserve on 31 December	61	61
Retained earnings		
Retained earnings on 1 January	577	586
Ordinary dividend distribution	-216	-167
Extra dividend distribution	-192	
Reversal of revaluation	-1	
Result for the financial period	246	159
Retained earnings on 31 December	415	577
Distributable equity	415	577

13. Provisions

MEUR	2008	2007
Other provisions		3

14. Liabilities

MEUR	2008	2007
Long-term		
Interest-bearing	413	214
Total	413	214
Current		
Non-interest-bearing	157	63
Interest-bearing	1 004	764
Total	1 161	827

Long-term debt with maturity profile

2008

MEUR	Current < 1 year	1–5 years	Long-term > 5 years	Total
Loans from financial institutions	43	185	132	360
Loans from pension institutions	4	65	32	100
Total	47	249	164	460

2007

MEUR	Current < 1 year	1–5 years	Long-term > 5 years	Total
Loans from financial institutions	7	135	75	217
Loans from pension institutions	8	4		13
Total	16	139	75	229

15. Main items in accrued expenses and deferred income

MEUR	2008	2007
Income and other taxes	12	1
Personnel costs	8	13
Interest and other financial items	70	9
Other	6	5
Total	96	29

16. Current liabilities to Group companies

MEUR	2008	2007
Trade payables	4	2
Other current liabilities	815	745
Accrued expenses and deferred income	52	26
Total	871	773

17. Collateral, contingent liabilities and other commitments

MEUR	2008 Debt in balance sheet	2007 Debt in balance sheet
Guarantees and contingent liabilities		
on behalf of Group companies	664	479
Nominal amounts of rents according to leasing contracts		
Payable within one year	3	3
Payable later	15	16
Total	17	19

18. Related party loans and other commitments

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

19. Auditors' fees and services

The following remuneration was paid to auditors and accounting firms for audits and other reviews based on applicable legislations and for advice as well as for independent advice.

In 2008 the AGM appointed the firm of public accountants KPMG Oy Ab as Wärtsilä Corporation's auditors.

Auditors' fees

TEUR	2008	2007
Audit fees	143	142
Statement fees		4
Tax advisor fees	391	151
Other fees	574	2 101
Total	1 108	2 397

Proposal of the Board

The parent company's distributable funds total 415,185,892.59 euros, which includes 246,281,834.83 euros in net profit for the year. There are 98,620,565 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:

EUR	
A dividend of EUR 1.50 per share be paid, making a total of	147 930 847.50
That the following sum be retained in shareholders' equity	267 255 045.09
Totalling	415 185 892.59

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.

Helsinki, Finland, 29 January 2009

Antti Lagerroos Matti Vuoria
Maarit Aarni-Sirviö Kaj-Gustaf Bergh
Kari Kauniskangas Bertel Langenskiöld
Ole Johansson, President and CEO

Auditors' Report

■ To the Annual General Meeting of Wärtsilä Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Wärtsilä Corporation for the year ended on December 31, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditors' responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with professional ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit has been performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Opinion on the discharge from liability and disposal of distributable funds

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Limited Liability Companies Act.

Helsinki, 29 January 2009

KPMG OY AB

Pekka Pajamo

Authorized Public Accountant

Quarterly Figures 2007–2008

Condensed income statement

MEUR	10–12/2008	7–9/2008	4–6/2008	1–3/2008	10–12/2007	7–9/2007	4–6/2007	1–3/2007
Net sales	1 530	1 140	1 092	850	1 272	933	797	761
Other income	10	6	5	5	10	3	4	4
Expenses	-1 313	-996	-953	-753	-1 114	-821	-710	-683
Depreciation and impairment	-31	-26	-21	-21	-22	-19	-18	-18
Share of profit of associates and joint ventures	1	-1	1		1			
Operating result	197	123	124	81	147	96	73	64
Financial income and expenses	-14	5	7	-7	-1	-2	-1	-4
Profit before taxes	183	127	131	75	145	95	72	60
Income taxes	-36	-30	-36	-25	-43	-26	-20	-17
Profit for the financial period	147	97	96	49	103	68	52	42
Earnings per share, EUR	1.46	0.97	0.96	0.49	1.05	0.71	0.54	0.44
Order intake	823	1 382	1 432	1 936	1 594	1 514	1 369	1 157
Order book, at the end of period	6 883	7 762	7 479	7 219	6 308	6 162	5 460	4 860
Personnel, at the end of period	18 812	18 268	17 552	16 979	16 336	15 811	15 180	14 754

Information for Shareholders

■ Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Wednesday, 11 March 2009, beginning at 4 p.m., in the Congress Wing of the Helsinki Fair Centre, address: Messaukio 1, 00520 Helsinki, Finland.

Right to attend

Shareholders registered no later than 27 February 2009 in the Company's list of shareholders maintained by the Finnish Central Securities Depository Ltd have the right to attend the Annual General Meeting.

Notification of attendance

Shareholders wishing to attend the Annual General Meeting are required to inform the Company thereof not later than 4 p.m. on 5 March 2009 either by letter, by e-mail, by fax or by telephone.

Registration:

Wärtsilä Corporation
Share Register
P.O. Box 196
FI-00531 Helsinki
Finland
telephone +358 10 709 5282,
between 9 a.m. and 12 (noon) on weekdays
fax +358 10 709 5283
e-mail: yk@wartsila.com
Internet: www.wartsila.com/agm_register

Letters, e-mails and faxes informing of participation at the Annual General Meeting must reach the Company before the notification period expires at 4 p.m. on 5 March 2009. Letters authorizing a proxy to exercise a shareholder's voting right at

the Annual General Meeting should reach the Company before the notification period expires.

■ Payment of dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 1.50 per share will be paid for the 2008 financial period. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Finnish Central Securities Depository Ltd on the record date, which is 16 March 2009. The dividend payment date proposed by the Board is 23 March 2009.

www.wartsila.com/investors

Financial information 2009

Annual Report 2008

The Annual Report is also available in Finnish and Swedish and will also be published on Wärtsilä's Internet site, www.wartsila.com.

Interim Reports 2009

- January-March on Friday 24 April 2009
- January-June on Wednesday 22 July 2009
- January-September on Thursday 22 October 2009

Interim Reports are published in English, Finnish and Swedish on Wärtsilä's internet site.

Stock Exchange Releases

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

Ordering information material

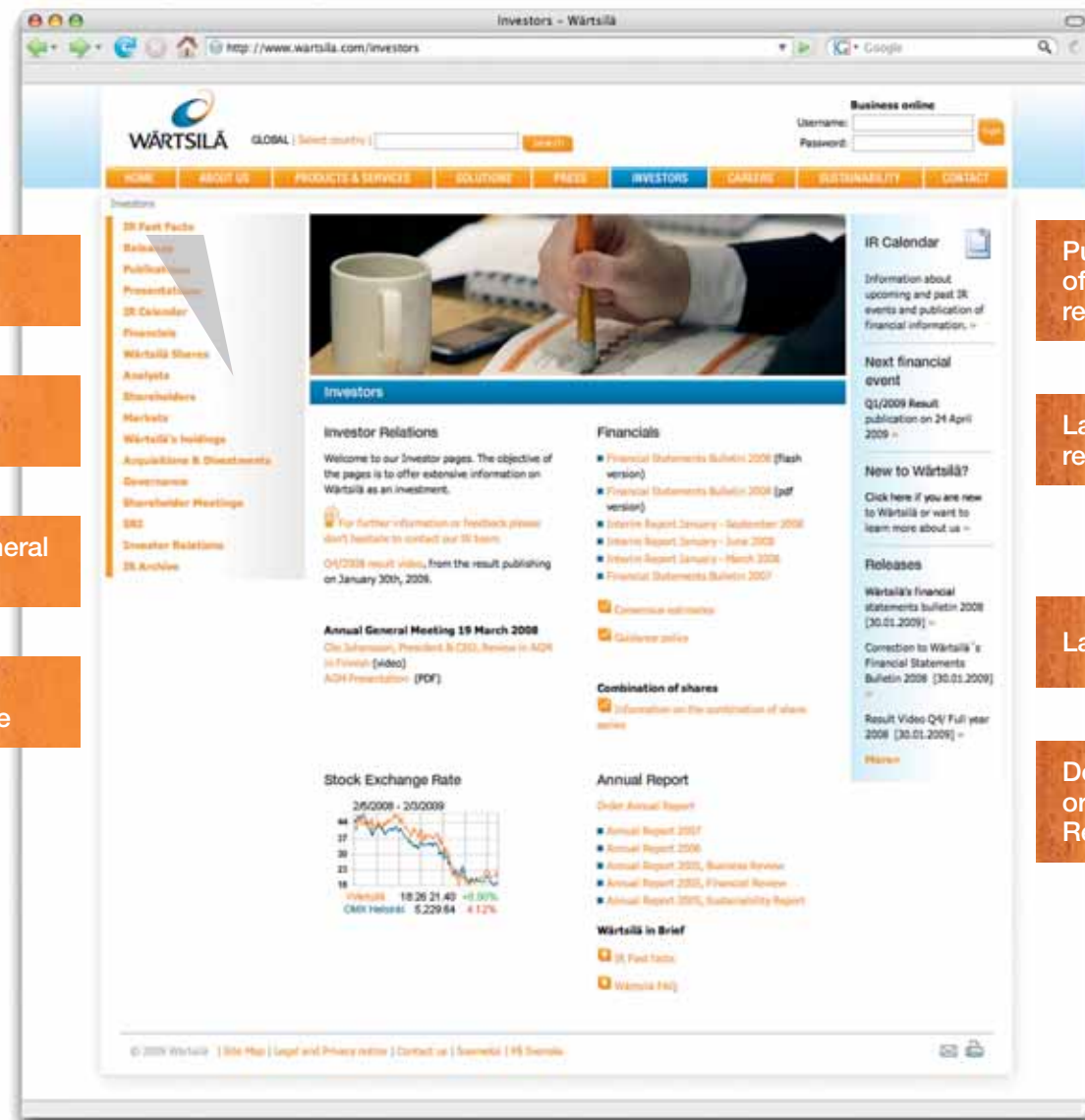
Wärtsilä's Annual and Interim Reports, releases and brochures can be ordered from the Communications Department either by telephone +358 10 709 0000, fax +358 10 709 5219, e-mail: corporate.communications@wartsila.com or via the internet at www.wartsila.com, Contact-section.

Financial statistics

Ownership structure

Annual General Meeting

Corporate Governance



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Investor information:

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Director, Investor Relations
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Information on career possibilities with Wärtsilä, please visit:

www.wartsila.com/careers

Information on Sustainability, please contact:

Mr Marko Vainikka
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e-mail: marko.vainikka@wartsila.com

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