WÄRTSILÄ

Annual Report 2001

Information for Shareholders

ANNUAL GENERAL MEETING

The Annual General Meeting of Wärtsilä Corporation will take place in the Congress Wing of the Helsinki Fair Centre on Tuesday 12 March 2002, beginning at 4 p.m.

Shareholders who have registered themselves no later than 1 March 2002 in the Company's shareholder register maintained by the Finnish Central Securities Depository Ltd may attend the AGM.

Shareholders whose shares have not been transferred to the book-entry securities system may also attend the AGM on condition that such shareholders were registered in the Company's shareholder register before 26 February 1993. In such a case, shareholders must present at the AGM their share certificates or other evidence that their shareholding rights have not been transferred to the book-entry securities system.

Shareholders wishing to attend the AGM must notify the Company by 4 p.m. on 8 March 2002 by letter, telephone, fax or e-mail.

Wärtsilä Corporation
Share Register/Aila Aho
P.O. Box 196
FIN-00531 Helsinki
Finland
Telephone +358 10 709 5295
fax +358 10 709 5297
e-mail aila.aho@wartsila.com

Letters authorizing a proxy to exercise a shareholder's voting right at the AGM should be sent to the Company before the notification period expires.

PAYMENT OF DIVIDEND

The Board of Directors will propose to the Annual General Meeting that a normal dividend of EUR 0.50 and an extra dividend of EUR 3.50 or altogether EUR 4.00 per share to be paid on the 2001 financial period.

The record date for dividend payment is 15 March 2002, and the dividend payment date is 22 March 2002, should the Board's proposal be approved.

Shareholders cannot be paid a dividend until they have transferred their shares to the book-entry securities system.

ANNUAL REPORT 2001

This Annual Report is also available in Finnish and Swedish and may be downloaded at Wärtsilä's Internet site, www.wartsila.com.

Imatra Steel, the engineering steels division of Wärtsilä, publishes its Annual Report in Finnish and English.

INTERIM REPORTS 2002

Wärtsilä Corporation will publish Interim Reports on its financial performance during 2002 as follows:

January-March: 3 May 2002
January-June: 1 August 2002
January-September: 30 October 2002.

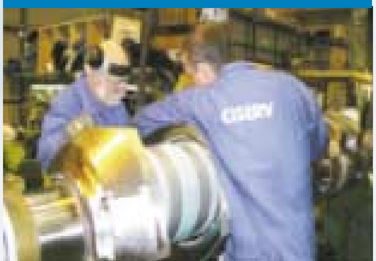
These Interim Reports are published in English, Finnish and Swedish on Wärtsilä's Internet site. Interim Reports will be sent by post on request. Interim Report orders:
tel. +358 10 709 0000 or
Internet: www.wartsila.com

STOCK EXCHANGE RELEASES:

Wärtsilä´s Stock Exchange releases are available in English, Finnish and Swedish on Wärtsilä´s Internet site.

Contents

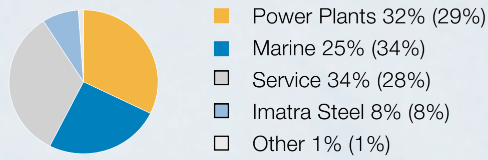
Wärtsilä in Brief

	Description	Strategy
Wärtsilä Corporation 	Wärtsilä Corporation is the leading global ship power supplier and a major provider of solutions for decentralized power generation and of supporting services. In addition Wärtsilä operates a Nordic engineering steel company Imatra Steel and manages a substantial share holding to support the development of its core business.	**Power on Land and at Sea**
Marine 	Wärtsilä supplies engine room solutions, integrated propulsion systems, main and auxiliary engines and maintenance services for all types of marine vessels and offshore applications.	**The Ship Power Supplier** The world's leading supplier of marine propulsion systems and emissions control technology.
Power Plants 	Wärtsilä delivers power plant solutions from 1 MW to 300 MW. These power plants are used for baseload, load management, cogeneration and gas compression applications. Deliveries include turnkey construction and long-term maintenance and operation.	**Power for a Changing World** Power solutions for decentralized power generation fast, flexibly and with respect for the environment.
Service 	Wärtsilä's service and operations business builds on the Group's global base of installed engines and power plants. With this activity the Group supports its customers throughout the lifecycle of these products. Wärtsilä is close to its customers, through subsidiaries in some 60 countries.	**Total Service Provider** Ensuring lifetime efficiency of customers' systems.
Imatra Steel 	Imatra Steel is Wärtsilä's special engineering steels company. Imatra Steel produces round, square and flat special steel bars, forged engine and front axle components, leaf springs and tubular stabilizer bars. The company's customers are European automotive and mechanical engineering companies.	**A Skilful Niche Player** Special engineering steels and automotive components
Holdings 	• Assa Abloy 10.7% • Wärtsilä Real Estate 100%	Holdings create financial resources for development of Wärtsilä's core business, the Power Divisions.

Key figures 2001	Global presence

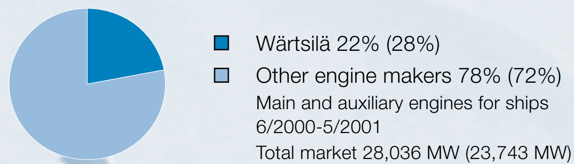
- Net sales MEUR 2,358.7
- Operating profit MEUR 523.9
- Profit before extraordinary items MEUR 508.7
- Balance sheet total MEUR 2,405.0
- Gearing 0.01
- Personnel at year end 11,122

Net sales by divisions 2001



- Net sales MEUR 595.1
- Order intake MEUR 476.8
- Year-end order book MEUR 769.6

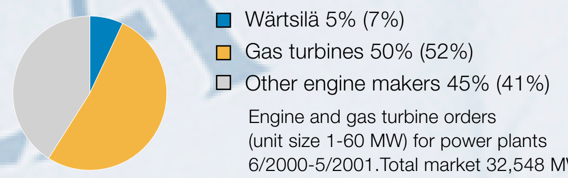
Market share of Wärtsilä Marine



Main and auxiliary engines for ships 6/2000-5/2001
Total market 28,036 MW (23,743 MW)

- Net sales MEUR 760.6
- Order intake MEUR 658.6
- Year-end orderbook MEUR 467.7

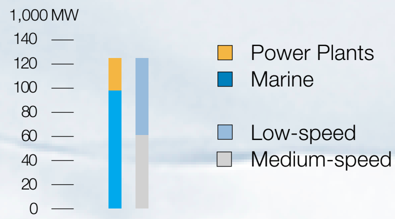
Market share of Wärtsilä Power Plants



Engine and gas turbine orders (unit size 1-60 MW) for power plants 6/2000-5/2001. Total market 32,548 MW (24,449 MW).

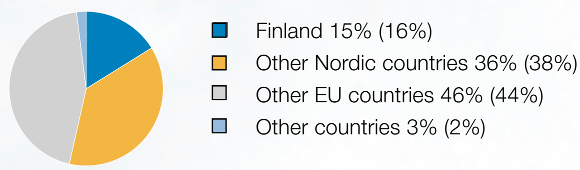
- Net sales MEUR 790.4
- Personnel at year end 5,026
- Operation contracts for 1,698 MW

Wärtsilä´s engine base



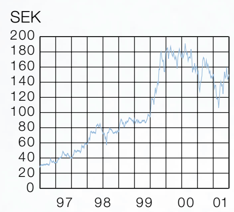
- Net sales MEUR 186.4
- Operating profit MEUR 6.4
- Profit before extraordinary items MEUR 3.5
- Personnel at year end 1,384

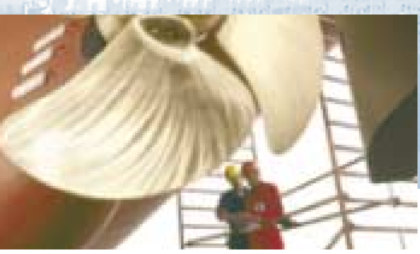
Imatra Steel net sales by market area 2001



- Market value of Wärtsilä's holdings on 31 December 2001:
- Assa Abloy MEUR 614
- Wärtsilä Real Estate, book value MEUR 21.4.

Assa Abloy share price development 1997-2001





Wärtsilä´s Strategy

Wärtsilä – Power on Land and at Sea

MISSION

We contribute to solving the global needs of sea transportation and power generation by developing equipment and services that convert fuels into power efficiently and with the lowest possible environmental impact.

VISION

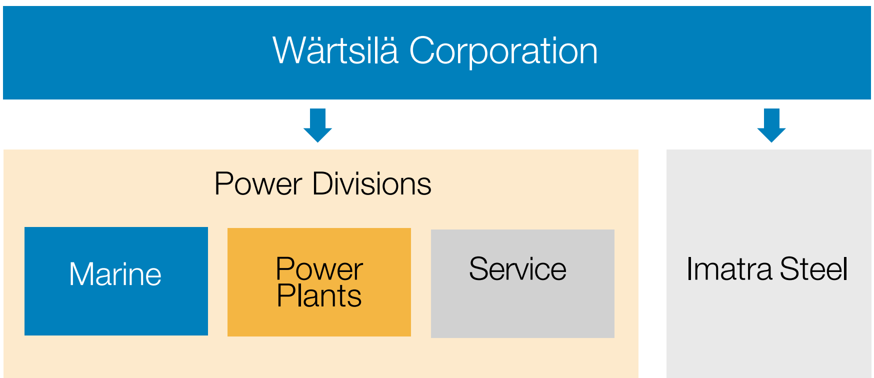
We strive to lead the ship power and distributed power generation markets by providing the most competitive, reliable and environmentally sound solutions.

Our worldwide network of professionals translates these solutions into maximum customer satisfaction and value.

OUR MISSION AND VISION MEAN THAT:

- We take responsibility for the total functionality of our system supplies.
- We maintain and develop a comprehensive service network capable of enhancing value for our customers.
- We develop products that meet the strictest environmental criteria.
- We develop value for our shareholders.

Group Structure



Wärtsilä's service strategy was the main items on the agenda of the Service Conference.

Targets

TARGETS

OPERATIONAL

- The leading global ship power supplier.
- In Power Plants, Wärtsilä's target is to strengthen its global leadership position in large engine based power plants and to generate major growth in renewable energy solutions. Gas power plant deliveries will be half of Wärtsilä´s total power plant business.
- In the Marine and Power Plant Divisions Wärtsilä´s target is to grow 4% a year. Further growth will be achieved through acquisitions.
- The annual growth target for the Service division is 10-15%. The service business will represent over one-third of the total net sales of the Power Divisions.

FINANCIAL

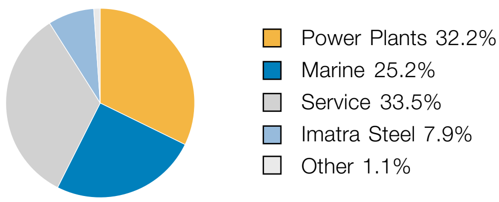
- Wärtsilä´s target is to improve the performance of the Power Divisions by raising the operating profit to 7-8% of net sales in 2003. The solvency ratio target is 40%.

DIVIDEND POLICY

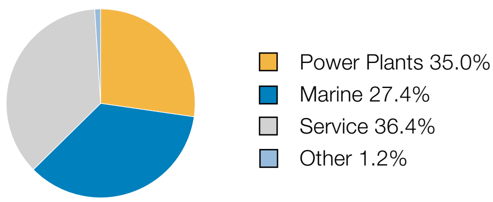
Wärtsilä´s target is to pay a dividend equivalent to 50% of operational earnings per share.

Achievements

Wärtsilä Group´s net sales 2001



Power Divisions, net sales by division



KEY RATIOS		Year			Most recent quarters		
MEUR	1999	2000	2001	1-3/01	4-6/01	7-9/01	10-12/01
Net sales	2,700.0	2,706.8	2,358.7	497.4	576.4	661.4	623.5
Operational EBIT	98.2	111.4	95.8	26.0	13.8	26.6	29.4
Operating profit	272.7	367.1	523.9	–4.0	564.1	25.5	–61.7
Profit before extraordinary items	237.0	336.1	508.7	–4.4	563.8	27.5	–78.2
Earnings per share, euro	2.43	4.20	5.53	–0.23	6.44	0.31	–0.99
Balance sheet total	2,971.2	2,465.3	2,405.0	2,491.5	2,688.8	2,487.4	2,405.0
Interest-bearing liabilities, gross	794.3	485.0	168.3	634.6	223.8	172.5	168.3
Convertible subordinated debentures	117.2	117.2	28.1	117.2	117.2	29.6	28.1
Cash and bank balances	110.3	118.9	184.6	85.5	421.0	329.2	184.6
Personnel end of period	17,937	10,564	11,122	10,572	10,681	10,857	11,122

President´s Review

Dear Shareholders,

During the year 2001 Wärtsilä Corporation continued to streamline its structure towards becoming a specialized engineering company. In May Wärtsilä sold about one third of its holding in Assa Abloy or 20 million shares and in June we sold all of our remaining 46.7% shareholding in Sanitec. The proceeds from these transactions EUR 764.4 million and the earnings of 6.32 euro per share will be used in accordance with our long-term ambitions to develop the group. They will also enable us to distribute an extra dividend on the year 2001.

The year 2001 took Wärtsilä's Power Divisions a number of important steps towards their strategic objectives. These are to lead the ship power and distributed power markets by providing the most competitive, reliable and environmentally sound solutions. We aim to support our marine and power plant customers throughout the lifetime of their equipment with high-quality service, operation and maintenance.

The shipbuilding industries peaked as expected during the year in terms of order-book level. The order intake slowed down and the trend was further amplified by the recessional trends in the world economy during the latter part of the year. The lower demand will further increase competition among the shipyards. Wärtsilä has an important role in assisting yards to develop their competitiveness, as our ship power supplier concept offering complete propulsion systems reduces engineering costs and speeds up construction time. The acquisition of John Crane-Lips, which was completed in January 2002, is one of the building blocks of this strategy and will add about EUR 235 million in revenue to our Marine business and enhance earnings in the longer run.

Wärtsilä's power plant business, originally created around our heavy fuel burning diesel engines, has developed significantly. It is today a recognized global supplier of plants intended for distributed power generation based on oil, gas, Orimulsion® and biofuel in the size range up to 150 MW.

The traditional heavy fuel business remained rather flat during the year whereas the gas business, particularly in

the USA, developed very well in the beginning of the year. The tragic events of September 11th led to the delay of several promising projects but due to the underlying demand for new capacity we continue to remain optimistic about the future.

In the spirit of the Kyoto agreement, much of the world is today putting strong emphasis on carbon dioxide emissions. Initiatives, for example within the EU to increase the share of renewable power as part of total power production, is the basis for Wärtsilä's entry into bio-mass burning technology through the acquisition of Sermet Oy, a leading company in this field in Finland. Our intention is to leverage our established worldwide sales and project handling capabilities for selling and commissioning small biopower plants globally.

Our Service business grew in 2001 in line with our long-term objectives by 12.6%. We consider extended maintenance and operation a strategic focus area. Today about 5,000 of our employees are directly involved in service, operations and maintenance. By the end of the year, we operated approximately 1,700 MW of power plants at 80 locations with several big additional projects under negotiation. We believe that the extended maintenance concept will gradually gain acceptance not only in power plants but also at sea. The acquisition of Ciserv in Gothenburg, Sweden will complement our network by offering a wide selection of ship service activities.

Imatra Steel, a wholly owned company within the Wärtsilä Group, supplies the European automotive and engineering industries with special steel products. The recessionary tendencies within the world economy hit the steel industry severely during the year. Imatra Steel continued to consolidate its position as a key supplier of forged components to the automotive industry by the acquisition of a forge in the United Kingdom – today called Imatra Stampings.

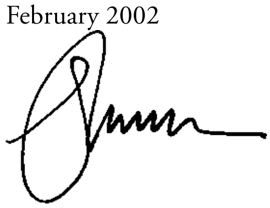
Again in 2001 we took important steps within our Power divisions towards reaching the 7-8% EBIT margin target that we have set for 2003. Operationally we reached 4.0%. We consider the profitability of our Power divisions to be decisive to raising the value of our group and we initiated further rationalization of our product portfolio and production processes to improve profitability.

During 2001 it became evident that demand in the market will not support the engine manufacturing capacity currently available in the group. At the end of the year, negotiations were started with the parties involved with the objective to discontinue our activities in Zwolle and to transform our local company in the Netherlands into a sales and service unit. The final outcome of these negotiations is still open but we expect them to result in a considerable improvement of profitability in 2003.

We have made a provision of EUR 122.4 million for the costs arising from the restructuring measures at group level. On the other hand we have booked significant non-recurring gains from the sale of Sanitec and Assa Abloy shares.

I would like to take this opportunity to thank our customers for the trust and loyalty that they have shown in our products and services. I would also like to thank you, our shareholders, for the confidence you have shown in the company and its management. And last but not least I also thank all our employees for your efforts to make the Wärtsilä products and services our customers' first choice.

February 2002



Ole Johansson

From left: Robert G. Ehrnrooth, Georg Ehrnrooth, Göran J. Ehrnrooth, Jaakko Iloniemi, Paavo Pitkänen, Christoffer Taxell, Vesa Vainio.

Board of Directors

Mr Robert G. Ehrnrooth, LicSc (Econ.), Chairman, born 1939. Chairman of the Board of Lohja Corporation 1986-90. Chairman of the Board of Wärtsilä Corporation since 1990. Term expires in 2003. Member of the Boards of Finnair Oyj and Fiskars Corporation. Owns 39,232 shares in Wärtsilä.

Mr Georg Ehrnrooth, MSc (Eng.), born 1940. Former President and CEO of Wärtsilä Corporation. Member of the Board of Wärtsilä Corporation since 1999. Term expires 2002. Chairman of the Board of Assa Abloy AB (publ), Vice Chairman of the Board of Rautaruukki Corporation, member of the Boards of Nokia Corporation, Sampo plc and Sandvik AB (publ.). Owns 75,080 shares in Wärtsilä.

Mr Göran J. Ehrnrooth, MSc (Econ.), born 1934. Chairman of the Board of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 1992. Term expires in 2002. Member of the Board of Assa Abloy AB (publ). Owns 104,830 shares in Wärtsilä.

Mr Jaakko Iloniemi, MSc (Pol. Sc.), born 1932. Member of the Board of Wärtsilä Corporation since 1994. Term expires in 2003. Owns no shares in Wärtsilä.

Mr Paavo Pitkänen, MA, born 1942. Managing Director of Varma-Sampo Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 1995. Term expires in 2004. Member of the Boards of Stora Enso Oyj, Sampo plc and Partek Corporation, member of the Supervisory Board of Alma Media Corporation. Owns no shares in Wärtsilä.

Mr Christoffer Taxell, LLM, born 1948. President and CEO and member of the Board of Partek Corporation. Member of the Board of Wärtsilä Corporation since 1996. Term expires in 2002. Member of the Boards of Stockmann plc and Sampo plc. Owns 700 shares in Wärtsilä.

Mr Vesa Vainio, LLM, Deputy Chairman, born 1942. Chairman of Nordea AB (publ). Member of the Board of Wärtsilä Corporation since 1993. Term expires in 2002. Chairman of the Board of UPM-Kymmene Corporation and member of the Board of Nokia Corporation. Owns no shares in Wärtsilä.

From left: Ole Johansson, Sven Bertlin, Pekka Ahlqvist, Christian Andersson, Tage Blomberg, Matti Kleimola, Raimo Lind, Mikael Mäkinen.

Board of Management

Mr Ole Johansson, BSc (Econ.), born 1951. President and CEO. Worked for the company 1975-79 and rejoined in 1981. Owns 9,500 shares in Wärtsilä. Warrant 2001 allows subscription of 84,000 Wärtsilä B shares.

Mr Sven Bertlin, BSc (Econ.), born 1944. Executive Vice President. Group Vice President, Engine Manufacturing. Joined the company in 1970. Owns 2,872 shares in Wärtsilä. Warrant 1996 with right to subscribe for 9,600 Wärtsilä B shares. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares.

Mr Pekka Ahlqvist, MSc (Eng.), born 1946. Group Vice President, Power Plants. Joined the company in 1999. Owns 1,500 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares.

Mr Christian Andersson, LLM, born 1944. Group Vice President, Human Resources, Administration and External Relations, Secretary to the Board of Management. Joined the company in 1985. Owns 120 shares in Wärtsilä. Warrant 1996 with right to subscribe for 3,600 Wärtsilä B shares. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares.

Mr Tage Blomberg, BSc (Eng.), born 1949. Group Vice President, Service. Joined the company in 1975. Owns 1,100 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares.

Mr Matti Kleimola, LicSc (Tech.), born 1946. Prof., CTO, Group Vice President, Technology and Environment. Joined the company in 2000. Owns 1,000 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares.

Mr Raimo Lind, MSc (Econ.), born 1953. Group Vice President, CFO. Employed by the company 1976-89 and rejoined in 1998. Owns 1,560 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares.

Mr Mikael Mäkinen, MSc (Eng.), Naval Architect, born 1956. Group Vice President, Marine. Joined the company in 1982. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares.

Corporate Governance

Wärtsilä Corporation adheres to the application guideline on the administration of public listed companies issued by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. Application of this guideline was recommended by the Helsinki Exchanges on 2 October 1997.

BOARD OF DIRECTORS

The company's administration and the appropriate organization of its operations is the responsibility of the Board of Directors, which comprises 5-8 members. The members of the Board are elected by the Annual General Meeting of shareholders for three years at a time, their terms of office ending at the close of the third AGM following their election. The Board elects a chairman and deputy chairman from among its members who serve until the close of the subsequent AGM. Information on the members of the Board of Directors and their business interests appears on page 10.

The principles applied by the Board in its regular work are set out in the Rules of Procedure approved by the Board. These also define the main tasks and operating principles to be adopted by the committees which the Board appoints. The committees do not have the authority to make decisions; their purpose is to prepare matters for consideration by the Board at its meetings.

The Board of Directors convened 12 times during 2001. The Chairman was Mr Robert G. Ehrnrooth and the Deputy Chairman was Mr Vesa Vainio. The Board appointed two committees: an Audit Committee to supervise the annual accounts and financial control, and a Personnel Administration Committee to oversee remuneration and other matters related to the company's human resources.

Audit Committee:
Robert G. Ehrnrooth, Georg Ehrnrooth,
Göran J. Ehrnrooth and Paavo Pitkänen.

Personnel Administration Committee:
Robert G. Ehrnrooth, Georg Ehrnrooth,
Christoffer Taxell and Jaakko Iloniemi.

THE PRESIDENT AND CEO

The company's Board of Directors appoints a President for the Group and, if required, one or more executive vice presidents. The company's president is also its chief executive officer. The company currently has one executive vice president who has also been appointed deputy to the President and CEO.

THE BOARD OF MANAGEMENT

The company's Board of Management comprises the President and CEO, the executive vice president, the heads of the divisions, the chief financial officer and the group vice president, administration. 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, investments, product policy, the Group structure and corporate steering systems, and it oversees the company's operations.

The division heads on the Board of Management are each responsible for the profitability and sales volumes of their respective global businesses, employing the services of the Group's worldwide subsidiaries. Information on the members of the Board of Management appears on page 11.

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 and the president of Imatra Steel.

Corporate Management meetings are chaired by the President and CEO and their composition varies depending on the issues under consideration. Corporate Management meetings are convened to prepare proposals to the company's Board of Directors, to deal with issues concerning communications, personnel development, quality, information management and other development issues, to handle relations with licensees and other stakeholders, and to consider issues specific to Imatra Steel.

Information on the members of the Corporate Management is given on page 72.

ADVISORY BOARD

In strategic issues concerning the Power Divisions the management is supported by an Advisory Board comprising Georg Ehrnrooth (chairman), Corrado Antonini and Jannik Lindbaek.

DIVISION BOARDS

Each division head is supported by a Division Board. Information on the members of the Division Boards is shown on pages 72 and 73. Imatra Steel has its own Board of Directors.

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 divisions; that the subsidiary's operations fulfil the requirements stipulated in the Group's quality system; and that these operations comply with the respective country's legal requirements and with good business practice.

INSIDERS

Wärtsilä applies the Guidelines for Insiders approved by the Helsinki Exchanges on 28 October 1999. Wärtsilä's permanent insiders comprise the statutory insiders as well as the members of the Board of Management and certain other members of the Corporate Management. Information on the interests and holdings of the company's permanent insiders is available from the SIRE system of the Finnish Central Securities Depository Ltd, Eteläesplanadi 20, FIN-00130 Helsinki, Finland, tel.+358-800-180 500.

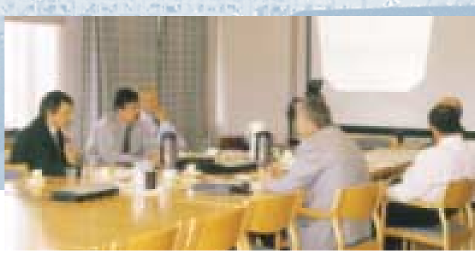
MANAGEMENT INCENTIVE SCHEMES

As authorized by the AGM on 25 March 1996, the company issued bonds with warrants to top management with a total nominal value of FIM 180,000 (EUR 30,274). The warrants entitle holders to subscribe for Wärtsilä's Series B shares. The share subscription period began on 1 September 1996 and ends on 2 May 2003, when the principal will be repaid. The subscription price is EUR 11.49. The bonds were subscribed by 34 executives in corporate and divisional management.

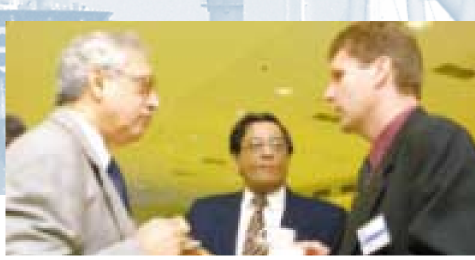
As authorized by the AGM on 20 March 2001, 1,500,000 warrants were issued to the key personnel of the Wärtsilä Group entitling them to subscribe for the same number of Series B shares. The share subscription period begins on 1 April 2003 and ends on 31 March 2007. The subscription price is EUR 31.72. The amount of any extra dividends that may be distributed will be deducted from this price. The warrant programme covers 80 people.

The company also operates a bonus system for senior managers in the parent company, the divisions and the subsidiaries. The bonus is based on the company's earnings per share or division result and agreed personal targets. Approximately 900 directors or managers are covered by this bonus scheme.

From left: Kauko Lämsä, Seppo Leino, Heikki Miilumäki and Sauli Mielty at the W20 product factory in Vaasa.



Wärtsilä's human resources managers at a meeting in Helsinki.



From left: Kausnal R. Sachar, Aspi Pajnigara and Ralf Ståhle.

Human Resources

The role of Wärtsilä's human resources (HR) function is to help line managers achieve the company's business goals. Placing the key emphasis on efficiency and quality, HR ensures that:

- the best resources are recruited and retained in the Group,
- the competences of Wärtsilä employees are continuously developed to match its business targets,
- the corporate values are nurtured, and
- that there is a favourable working climate in the different Group entities.

HIGHLIGHTS OF 2001

The HR activities focused on the creation of the skills and competences necessary to achieve Wärtsilä's strategic business targets. Major trends in this respect are the further globalization of the business and the shift in Group focus from engine builder to solution and full-service provider. More than half of the total personnel are employed today in service functions and only a quarter in manufacturing. This development requires a thorough review of skills and competences throughout the organization. Two major HR projects supported this strategic change. The Wärtsilä Academy was created as an in-house framework for management learning. A global HR project was launched to create a common HR management system with information on jobs, employees and competence management and to offer a platform for e-learning and e-travel management.

A new Occupational Health and Safety Policy and Directive was introduced under the Group quality system. In the course of further restructuring programmes, mainly in France and the Netherlands, considerable efforts were made to develop social plans to alleviate the situation of employees made redundant in the process.

THE ORGANIZATIONAL CLIMATE: STRENGTHENING THE CORPORATE CULTURE

Much work was done to strengthen the corporate culture to support the business targets. The road map presenting the vision, the strategic directions and the values of the Group has been used as an instrument for value discussions in training programmes, in works councils and in yearly development discussions all over the organization.

Wärtsilä values have also been discussed in management reviews and self-assessments based on the European Foundation for Quality Management Excellence (EFQM) Model.

The Group-wide Performance Tracking study made in November 2000 led to discussions in more than 100 teams on action to further enhance the organizational climate. Several national employee satisfaction studies were made as well. In these cases too, improvement measures were planned in co-operation between management and employees. Further consolidation took place both at the European and national levels in dialogue between management and employees in works councils.

RECRUITMENT

Internal recruitment has been the main policy of the Group. External recruitment was used mainly to broaden the competence base in line with the strategic targets. Universities and other educational institutions have been approached in a more systematic manner to increase knowledge of the Group among potential employees.

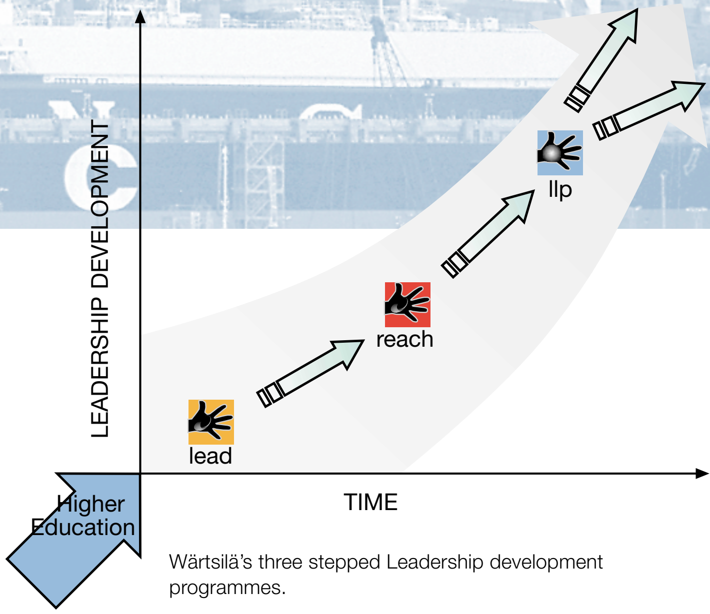
PERFORMANCE APPRAISAL AND TARGET SETTING

The yearly discussions on past performance and future target setting is one of the most important management tools. Every employee has the opportunity at least once a year to discuss their performance and targets with their superior in a structured manner. A process has been initiated to cascade the Group's strategic targets down along division lines throughout the organization. The basic goal is to ensure clearly defined responsibilities and accountabilities for each employee.

PERFORMANCE MANAGEMENT

The management training programmes have been further developed within the framework of the Wärtsilä Academy. A central leadership and management training programme called Reach, with approximately 80 participants annually, has received excellent feedback from participants. The

Nurse Tina Rodén at the occupational health centre.



Wärtsilä's three stepped Leadership development programmes.

Lausanne Leadership Process for top management continued in co-operation with IMD. A total of 15 Wärtsilä top managers participated in the programme. Among the division-sponsored professional training programmes the "Vision to Reality" programme on service sales training has been a major effort with close to 200 participants and also with customers participating in all programmes. International assignments were extensively used to transfer know-how, to create multiple skills and to deepen cultural understanding among managers. Exposure to foreign conditions is given high importance in the career development of young managers.

COMPENSATION AND REWARDS

The Group strives to implement a fair and equitable salary policy based on an international position evaluation system and local salary benchmarking. During the year approximately 200 management positions were re-evaluated to fit the Group's current way of working.

The Group-wide incentive systems covering some 900 managers were revised in the light of the business targets. These systems were generally based on three criteria: the Group's result, the respective division's result and personal performance targets. In addition spot bonuses have been awarded as a means of rewarding outstanding achievements. The major Group companies in Europe apply a profit-sharing scheme to all personnel not covered by other incentive schemes.

The management incentive schemes are described on page 13.

THE YEAR 2001 IN FIGURES

The company had 11,122 employees at the end of 2001: 9,738 in the Power Divisions and 1,384 in Imatra Steel. There was growth in the Service division, mainly as a result of the increasing number of power plants covered by operation and maintenance contracts. The acquisitions of Ciserv in Sweden and Sermet in Finland brought 160 new employees to the Group. Production capacity was further restructured to correspond to market needs. In this context a social plan was prepared for the Mantes unit of Wärtsilä France under which 168 employees left the company during 2001 and 2002 as the Service activities of Mantes were transferred to Wärtsilä Italy in Trieste. At the end of the year consultations were started with the employees in Wärtsilä Nederland on the transformation of the Dutch company into a service company. Engine production will be relocated to the factory in Trieste during a transition period.

FUTURE CHALLENGES

In giving full and seamless support to Wärtsilä's businesses the HR function will need to focus further on the skills and competences needed to change the company into a solutions and full-service provider. Another key area is to make the company an attractive option in the labour market able to compete for the best potential employees.

The year 2002 will be marked by a major effort to finalize the work on a modern on-line tool for the HR policy, the Global HR System, with a pilot project launched in Italy in the beginning of the year. The Occupational Health and Safety Management System will be implemented in all Wärtsilä companies during 2002 to create a safe and hazard-free working environment for all personnel.

Key figures	**2001**	**2000**
Training days per person	2.4	2
Absence rate %	3.9	4.0
Turnover of employees % (including restructuring)	6.6	9.6
Days lost due to strikes	1,521	572

The figures cover approx. 75% of total personnel.

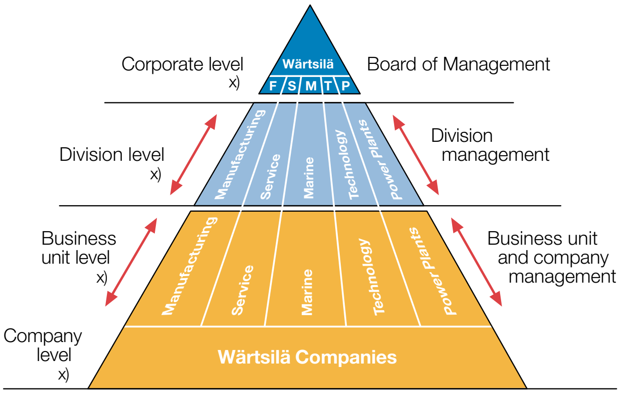
From left: Erik Pettersson, Sven Bertlin, Kim Backman and Hans Westö.

From left: Kent Åstrand, Ingmar Nylund, Carl-Erik Rösgren, Rolf Vestergren and Matti Kleimola.

Wärtsilä and the Environment

Environmental issues and sustainable development are important drivers of demand in Wärtsilä's business. Compliance with the principle of sustainable development plays a crucial role in the products and operations of Wärtsilä, the leading global ship power supplier and a major provider of solutions for decentralized power generation.

OpExS responsibilities



x) incl. HR, Finance, IM, Communication

WÄRTSILÄ'S MANAGEMENT SYSTEM

Wärtsilä's goal of continuous improvement in its products and operations is guided by the company's management system. This is founded on the principles and procedures approved by its top management. The system contains various tools including management systems covering quality, the environment, and occupational health and safety. These are also employed, or in the process of being adopted, by Wärtsilä's subsidiaries.

The following table shows the proportion of Wärtsilä companies with certified management systems.

Management system		
	Environment ISO14001	Quality ISO9000 series
Percentage of certified companies among Wärtsilä subsidiaries	55%	88%

RESPONSIBILITIES

At the operational level responsibility for quality, environment, and occupational health and safety issues lies with Wärtsilä's line management. All Wärtsilä employees, however, are individually responsible for ensuring that these issues are properly managed in their own work.

ENVIRONMENTAL RISK MANAGEMENT

Environmental risks are handled in the same way as other operational risks. This work is based on systematic and continuous risk assessment and avoidance of damage, supported by the high quality of Wärtsilä's products and operations.

Wärtsilä's Board of Directors regularly reviews the Group's risk profile, risk management policy and indemnity insurance coverage. Each Wärtsilä company is responsible for risk management in its own sphere of operations, complying with the Group's guidelines.

ENVIRONMENTAL LIABILITIES

Environmental liabilities in Wärtsilä are primarily linked to the company's real estate. Wärtsilä is aware of certain cases that incur environmental liabilities. These are of only minor financial significance to the company but are nonetheless included in Wärtsilä's business operations.

ENVIRONMENTAL PROTECTION OF OPERATIONS

Generally speaking, good environmental performance means sound management of natural resources and the environment. Protecting the air, soil and water, as well as combating climate change and using natural resources in a sustainable way, are all important objectives.

The environmental management systems deployed in Wärtsilä companies take account of all appropriate environmental aspects such as the use of energy and natural resources, emissions into the atmosphere, water systems and the soil, waste and noise. Besides complying with legal requirements, the purpose of Wärtsilä's environmental management systems is to prevent pollution, to anticipate environmental risks, to control emissions and to achieve cost savings.

To gain an environmental certificate a company must improve its environmental performance in compliance with the principle of continuous improvement. Its environmental performance is then monitored by independent certification societies through annual audits.

In 2001 21 Wärtsilä companies gained the international ISO 14001 environmental certificate in recognition of the systematic work done for the environment by these companies. All employees in these companies were involved in this effort.

WÄRTSILÄ'S PRODUCTS

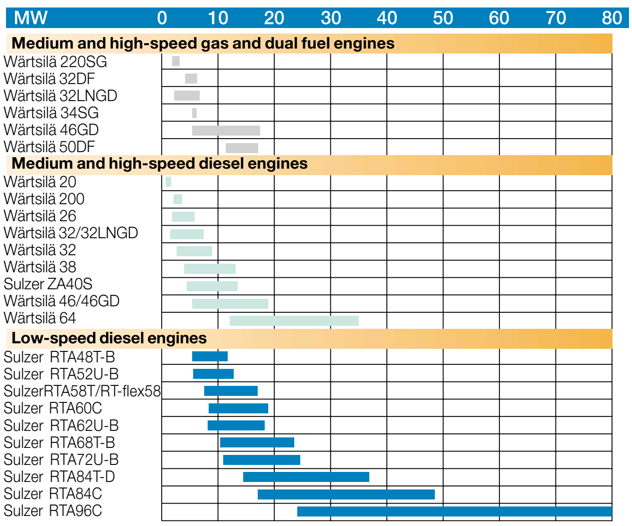
The thrust of Wärtsilä's research and development is on reducing the environmental impacts of its products. Many Wärtsilä customers are also forerunners in environmental matters and Wärtsilä supports their aims unreservedly.

The environmental characteristics of Wärtsilä's products will receive even greater priority in the future. Wärtsilä is ready to meet this challenge with a product portfolio that utilizes the very latest technical advances. The technical features of Wärtsilä products that relate to environmental protection are detailed in the descriptions of the Wärtsilä businesses in this annual report.

ENVIRONMENTAL REPORTING

Wärtsilä published its first Environmental Report in June 2001. This report was prepared using the guidelines of the international Global Reporting Initiative (GRI). Wärtsilä will continue to develop its reporting systems and reports, and will publish its next Environmental Report in 2003.

WÄRTSILÄ ENGINE PORTFOLIO

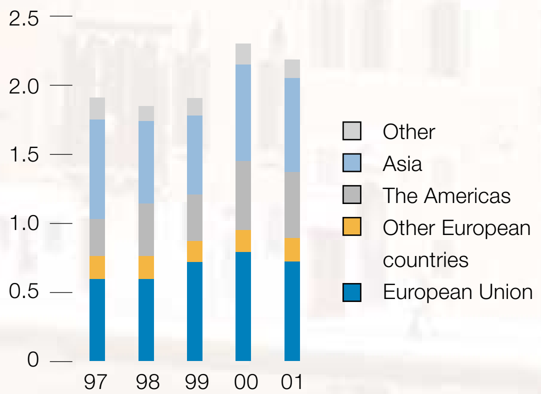


Wärtsilä manufactures competitive high-quality diesel and gas engines and related products for power plants and marine propulsion. Wärtsilä exploits its leading-edge production resources and expertise rapidly and flexibly applying the principle of best practices.

Power Divisions – Power on Land and at Sea

PROSPECTS
The total order book for Wärtsilä's Power Divisions is at a satisfactory level. The order book for Marine is good but for Power Plants only satisfactory. Organically the net sales is expected to increase. Power Divisions' operational profitability is expected to remain at the same level as in 2001. The benefits of the restructuring measures completed in 2001 and under way this year will be seen in performance during 2003. John Crane-Lips will add roughly EUR 235 million to Marine's annual net sales. The acquisition will increase the Group's operating profit and it will be earnings neutral.

Net sales of Power Divisions by market area



FIVE YEARS IN FIGURES, POWER DIVISIONS					
MEUR	2001	2000	1999	1998	1997
Net sales	2,174.3	2,287.8	1,896.6	1,834.6	1,898.5
of which outside Finland	97.5%	97.7%	96.4%	97.2%	96.3%
Depreciation and writedowns[1]	–69.8	–73.1	–64.6	–64.2	–54.4
Operating profit/loss	87.8	86.2	–28.5	–108.3	–16.9
Capital employed[2]	1,208.7	865.4	825.9	833.5	759.0
Operating profit/loss %	4%	4%	–2%	–6%	–1%
ROI	11%	12%	0%	–12%	–1%
MW delivered	6 172	7,495	6,278	6,896	7,497
Order book, end of period	1,516.5	1,624.3	1,314.9	1,210.2	1,177.0
Order intake	2,040.4	2,460.6	1,853.7	1,870.8	2,061.6
Personnel, end of period	9,738	9,255	8,742	7,854	7,461
of which outside Finland	7,086	6,812	6,343	5,324	5,023

[1] 2001 does not include writedowns of MEUR 37.5 included in restructuring
[2] 2001 includes the Group excluding Imatra Steel

Marine – The Ship Power Supplier

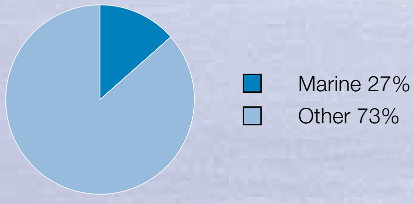
HIGHLIGHTS OF 2001

- The global economic slowdown affected the shipbuilding industry. Shipyards will continue operating at full capacity in 2002, however, and Wärtsilä's order book is at a good level.
- The Ship Power Supplier concept was further developed. The alliance between Wärtsilä and John Crane-Lips in marketing of propulsion systems was successful throughout the year. In January 2002 Wärtsilä announced an agreement to acquire John Crane-Lips, which strengthens Wärtsilä's position as the world's leading supplier of ship power and propulsion systems.

PROSPECTS

For Marine, the year 2002 is founded on a strong order book. The John Crane-Lips acquisition offers good potential for developing the company's The Ship Power Supplier concept and expanding it to include the naval and offshore sectors. Demand will continue to be brisk for environmentally sound solutions. General market uncertainty makes it difficult to estimate the order intake.

Share of Power Divisions, net sales 2001

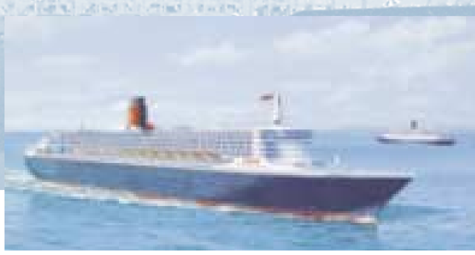


WÄRTSILÄ SOLUTIONS ON BEHALF OF THE ENVIRONMENT
Marine

- Comprehensive product line – efficiencies optimized for marine applications
- All new engines comply with the IMO's emission regulations
- EnviroEngine (the smokeless engine concept)
- Technologies for controlling noise and vibration
- Nitrogen oxide reduction technologies to achieve especially low emission levels

MARINE MEUR	2001	2000	% Change
Net sales	595.1	719.7	–17.3
Order intake	476.8	878.9	–45.8
Order book end of period	769.6	888.1	–13.3
MW delivered			
By Wärtsilä	2,346	2,768	–15.3
By licensees	2,378	2,990	–20.5

Crude oil tanker Kestrel is powered by Sulzer 7RTA84T-B engine.



Wärtsilä will supply four EnviroEngines for the Queen Mary II, the world's largest passenger vessel.

The bulk carrier Gypsum Centennial is propelled by the world´s first low-speed engines with Common Rail fuel injection.

From engines to complete propulsion systems

Wärtsilä's The Ship Power Supplier concept is founded on the need expressed by customers to have the most competitive engine solutions installed in their ships in the most efficient manner. The concept offers shipyards the opportunity to build vessels for all markets with engines and propulsion systems that meet the strictest standards regardless of the shipyard's own capacity or engineering resources. Moreover, the reliability of these vessels and their productivity throughout their lifetime is increased by the operation and maintenance services that this concept calls for.

THE HEART OF A SHIP IS THE ENGINE

In most large types of vessels the engines represent less than 10 % of the vessel's total construction costs. However, the engines, their auxiliary equipment and the propellers form the most important subsystem in a ship; their efficiency and reliability have a crucial impact on the vessel's productivity throughout its lifetime.

Roughly 1,100 vessels are built worldwide every year and Wärtsilä supplies approximately one-fourth of these with main or auxiliary engines. Wärtsilä owes its strong market position to being able to offer a complete portfolio of engines, propellers and reduction gears. Wärtsilä solutions represent the most advanced technology available today in a several marine sectors.

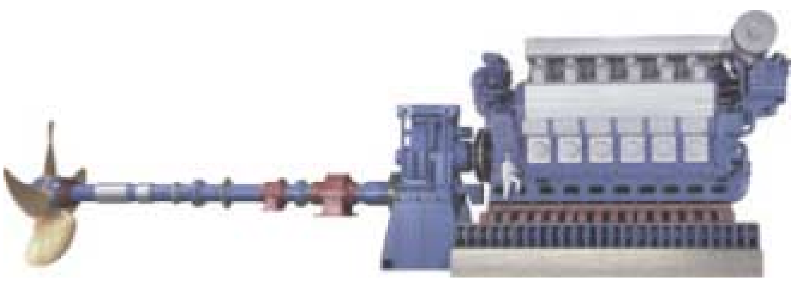
BENEFITS OF TOTAL SUPPLY DERIVED FROM SEVERAL SOURCES

As a total ship power supplier Wärtsilä must work in seamless co-operation with its customers. Ship systems are tailored to each customer's needs and the ability to respond to a customer's specific requirements is essential especially in the case of turnkey contracts. Wärtsilä must also understand the individual technological and service needs of different shipbuilders and shipowners.

To be successful as The Ship Power Supplier requires considerable investments in the development of global information systems. The company must also ensure that top-quality operation and maintenance services are available worldwide through its own network. Wärtsilä's aim is to gain a position in which it coordinates the operation of all the systems it delivers throughout the vessel's lifetime on behalf of its customer.

For customers, a turnkey delivery provides the opportunity to benefit from the most competitive solutions in the market. Wärtsilä adapts different systems into a single seamless entity in which efficiency and exhaust emissions are optimized.

Using a turnkey supplier enables shipbuilders to increase their own flexibility and thus reduce sensitivity to fluctuations in demand. A single shipyard, for example, builds from two to four vessels a year. Wärtsilä, on the other hand, supplies engines for some 400 vessels; the efficiency deriving from this large manufacturing volume is a distinct advantage.



JOHN CRANE-LIPS ACQUISITION

The John Crane-Lips acquisition substantially strengthens Wärtsilä's position as The Ship Power Supplier. The integration of the product portfolios of Wärtsilä and John Crane-Lips into complete systems is enhanced. Wärtsilä will offer a full range of engines, reduction gears and propulsion systems optimally combined to meet the needs of shipowners and yards globally. The acquisition also makes Wärtsilä a leading supplier of marine seals and bearings in addition to significantly strengthening its position as a supplier to the naval sector. Wärtsilä continues to offer support throughout the lifecycle of all its installations through its unrivalled global network.

NETWORK OF PROFESSIONALS

Building a total concept is only possible with the support of competent partners. Under The Ship Power Supplier concept Wärtsilä also takes full responsibility for the third-party components and systems incorporated in its deliveries and for this reason seamless collaboration with a network of reliable suppliers is vitally important to the development of the concept. Wärtsilä takes a long-term approach to building up its network, choosing companies that have demonstrated excellence in their particular fields.

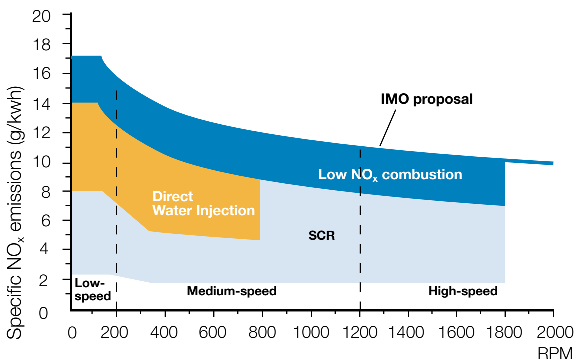
Wärtsilä also manufactures low-speed, two-stroke engines through twelve licensees in Europe and Asia as well as in its own factory in Italy. Manufacture of these engines close to their customers is essential because they are too big to be transported any distance. Licensing has enabled Wärtsilä to decentralize its manufacturing operations in response to market changes.

The shift in shipbuilding to Asia has been a clear trend in recent years. Most European shipbuilders have either gone out of business or else specialized in particular types of shipbuilding. In 2000 more than 70% of newbuildings calculated in grt were under construction in China, Korea and Japan. Nine of Wärtsilä's licensees are in Asia.

PRESENT IN MANY MARKETS

Wärtsilä has a presence in many shipbuilding markets through its broad engine portfolio. The company's strongest market share is in passenger ships, a sector in which Wärtsilä engines are installed in an estimated three-quarters of newbuildings. For example the Queen Mary II, now being built for Cunard Lines and the first large ocean-going liner under construction for many years, will have four Wärtsilä EnviroEngine diesel engines and a gas turbine. The engines will be delivered in June 2002.

NOx emission compliance of Wärtsilä products with IMO regulations



The passenger vessel market has recently become unsettled. The events of 11 September 2001 increased uncertainty in this market and this is expected to be reflected in building cruise ships.

The tanker market has long been stagnant. This has resulted in ageing of the world's tanker fleet and a clear need for its renewal. Of particular interest is the market for LNG carriers since gas production and the search for new gas fields is growing. The majority of tankers have traditionally been built in Asia. The Ship Power Supplier concept places Wärtsilä in an outstanding competitive position as a system supplier for new tankers once this market picks up.

The offshore industry is considered to be on the brink of growth. The most interesting areas are the Gulf of Mexico, Brazil and West Africa. Gas production in particular is expected to drive growth in demand. Wärtsilä has the opportunity in this market to increase its market share considerably.

The number of containerships under construction has been rising in recent years faster than on average in the shipbuilding industry. The size of these ships has been increasing as well and in many sectors they are replacing bulk carriers. Wärtsilä has a strong position in this market segment through its Sulzer two-stroke diesel engines. The new RT-Flex common-rail injection technology gives the Sulzer engines an added technical edge and further strengthens the competitiveness of Wärtsilä's solutions.

Wärtsilä's goal is to become the leading provider of total marine propulsion systems in the world. All areas covered by The Ship Power Supplier concept are extremely competitive. This concept will be expanded in the future with the addition of further technical solutions from the most competitive suppliers in the industry. The Ship Power Supplier is the customer's guarantee of unsurpassed quality and reliable operation in ship propulsion systems.

Power Plants – Power for a Changing World

HIGHLIGHTS OF 2001

- The power markets reflected large fluctuations in the prices of various fuels.
- Gas engines took a greater proportion, 29% (12%), of total engineorders representing growth of more than 80% in terms of megawatts. This was in line with the division's targets.
- Two record orders were won during the year: a 110 MW gas power plant in the USA and a 160 MW HFO power plant in Guatemala.

PROSPECTS

Demand for power plants is expected to remain positive in Latin America during the year. In Europe there is continued potential for gas- and biofuel-fired power plants. Investment activity is low in Asia, Africa and the Middle East. Demand in individual markets could substantially affect development during the year. Wärtsilä will develop its biofuel solutions and will seek growth through, among other things, synergies with its conventional power plant business during the year.

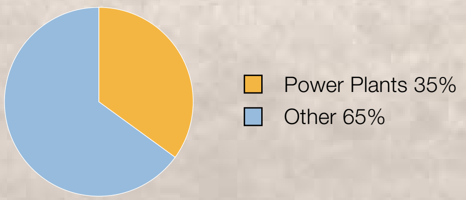
WÄRTSILÄ SOLUTIONS ON BEHALF OF THE ENVIRONMENT

Power Plants

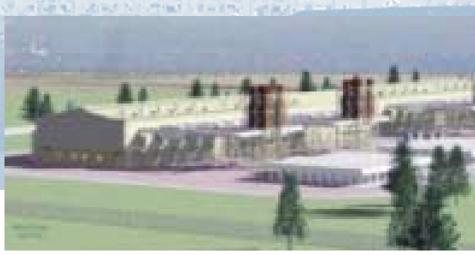
- Power plant concepts that meet the World Bank guidelines, and also the TA-Luft regulations for gas-fired power plants
- The combined heat and power (cogeneration) concept to achieve total efficiency as high as 75-90%
  Emissions reduction techniques to achieve especially low emission levels (SO_x, NO_x, Particulates)
- Technical solutions for controlling noise levels
- Power plant concepts that ensure extremely low raw water consumption
- Biopower plants.

The 2 MW gas power plant delivered in 1998 to Verbundnetz Gas AG in Buchholz, Germany

Share of Power Divisions, net sales 2001



POWER PLANTS MEUR	2001	2000	% Change
Net sales	760.6	834.6	–8.9
Order intake	658.6	851.0	–22.6
Order book end of period	467.7	518.5	–9.8
MW delivered	1,449	1,737	–16.6
HFO power plants	982	1,574	–37.6
gas power plants	467	163	186.3
Order intake	1,431	1,929	–25.9
gas power plants	422	232	81.8



Wärtsilä will deliver the largest turnkey gas power plant (110 MW) in its history to Plains End, Colorado, USA.

Puulaakson Energia Oy's biofuel power plant in Karstula, Finland, supplied by Sermet Oy.

Wärtsilä focuses on decentralized energy systems

The structure of the energy sector is being transformed as, complementary to large central power plants, small heat and power plants are increasingly being built close to consumers. Approximately 40% of new power plants worldwide are already based on this concept of decentralized generation.

Decentralized power production achieves several advantages. Placing the generation of energy physically close to where it is consumed minimizes transmission costs on the national grid, which in many cases form a significant proportion of total electricity costs.

Power generation worldwide has a rather low average efficiency, roughly 30%. This figure can be substantially increased by recovering the heat produced during the process and using it to meet industrial needs, or to heat air and water in buildings. Indeed cogeneration technology, the combined production of heat and power, can utilize as much as 90% of the latent energy in fuel. Since thermal energy is bound up in either steam or hot water it cannot be transported very far. Cogeneration therefore needs decentralized power plants close to where the power and heat are consumed. Investments in decentralized power plants are rapidly increasing owing to the method's environmental and economic benefits and its flexibility.

Decentralized generation also raises the overall reliability of the electricity system. Interruptions to supply in one small unit do not cause large-scale blackouts, as can happen when a large power station is shut down.

WÄRTSILÄ SUPPLIES DECENTRALIZED SYSTEMS

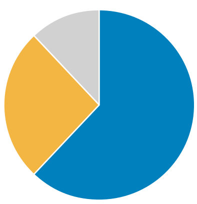
Wärtsilä has a prestigious heritage of engine building technology. Engines will remain Wärtsilä's main technology in the future as well but the company is now focusing increasingly on decentralized power generation solutions utilizing alternative technologies.

Wärtsilä's power plant solutions are extremely well suited to decentralized systems owing to their size and flexibility. Wärtsilä's power plants are built from modules of different sizes. This makes them fast to erect, and easy to upgrade or expand. Further benefits offered by Wärtsilä's solutions are their low emission levels, high efficiencies and fast-track delivery.

Wärtsilä power plants can run on a variety of different fuels from heavy fuel oil to gas. They can also switch from one fuel to another as necessary. In 2001 Wärtsilä was involved in 89 decentralized power plant projects around the world. 60 of these were HFO power plants, a segment in which Wärtsilä maintained its strong position with a market share of approximately 50%. Wärtsilä supplied 467 gas power plants during the year, which was 186% more than in the previous year.

The main reason for the growth in gas power plants was an increase in deliveries to the USA, which is experiencing shortages of both electricity generation capacity and transmission capacity. Since the transmission lines between states do not have the capacity to handle the transmission of increasing amounts of energy the best

Wärtsilä's fuel breakdown 2001



- Oil, medium-speed marine engines 62% (61%)
- Oil, power plants 26% (35%)
- Gas + dual-fuel power plants 12% (4%)

Based on deliveries (MW)

From left: Ilkka Liljeblad, Jari Kartano, Juha Huotari, Pasi Rantonen and Keijo Rantanen show an example of the biofuel, in this case wood waste, burned by Sermet's power plants.

Thomas Carbone, in change of the power plant business in the USA, described Wärtsilä's power plant strategy to analysts at Wärtsilä's Capital Markets Day in Turku, Finland.

alternative is decentralized power generation. In the spring of 2001 Wärtsilä received an order for the largest gas power plant in its history, a 110 MW power plant for the Plains End utility in the state of Colorado.

The use of gas is becoming more prevalent elsewhere as well, because gas pipelines are under construction and because, for environmental reasons, coal is losing ground to gas, which is cleaner. Wärtsilä aims to raise the share of gas power plants in its total delivery volume to half of all its power plant deliveries by the year 2003.

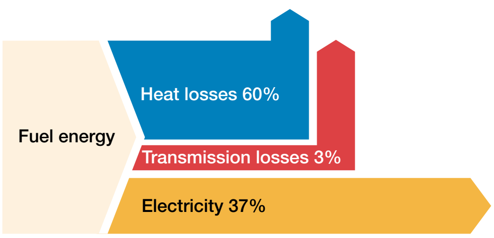
Wärtsilä is expanding into biofuel power plants

In 2001 Wärtsilä extended its portfolio of power plant products to include biofuel solutions with the acquisition of Sermet Oy, a Finnish company specialized in boiler plants running on biofuels, gas and oil, and one of the leading suppliers of biofuel-fired boiler plants in the Nordic area. The acquisition enables Wärtsilä to further strengthen its position as a provider of decentralized power generation solutions.

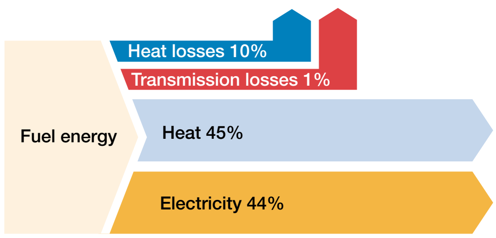
Demand for power plants that can burn renewable sources of energy is rising sharply. In terms of electrical output, biofuel power plants of various sizes and totalling approximately 1,000 MW are currently under construction in Europe. Developing countries also offer considerable market potential. So Wärtsilä's power plant and project management expertise and worldwide sales network, in combination with Sermet's combustion technology, will open up outstanding new opportunities for growth.

Centralized and decentralized power production

Typical centralized thermal power plant
- Comprehensive transmission systems/losses
- CHP difficult to apply
- Poor total efficiencies
- Better economics of scale for cleaning equipment



Typical decentralized diesel power plant
- Small transmission systems/losses
- CHP easy to utilize
- High total efficiencies

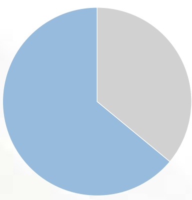


Service – Total Service Provider

HIGHLIGHTS OF 2001
- The Service division continued to grow fast as targeted, up 12.6% on the previous year.
- The volume of long-term service agreements, especially O&M agreements showed a further strong increase.
- The Ciserv acquisition was an important step in the expansion of Wärtsilä's service portfolio to include other vendors' engines and ship equipment.

WÄRTSILÄ SOLUTIONS ON BEHALF OF THE ENVIRONMENT
Service
- Worldwide training and service network
- Optimal performance through operation and maintenance agreements
- Environmental measurement services
- Engine modifications (Retrofit solutions) in line with current and future requirements.

Share of Power Divisions, net sales 2001



SERVICE MEUR	2001	2000	% Change
Net sales	790.4	702.0	12.6
O&M agreements, MW	1,698	1,262	34.5
Personnel end of period	5,026	4,485	12.1

The world's largest floating power plant, Sultana del Este.

Ciserv professionals handle all kinds of ship repair and maintenance work.

Kimmo Kohtamäki show how an engine is controlled remotely.

Comprehensive service generates further growth

Wärtsilä's service business aims to support customers by ensuring the high availability of the engines and power plants supplied by Wärtsilä throughout their lifetime. Operating these engines and power plants is not generally the core business of Wärtsilä's customers, but rather an unavoidable means to perform their particular production process. Nonetheless, uninterrupted operation of this equipment is imperative to the profitability of their primary business.

In 2001 Wärtsilä had service operations at 131 sites in 60 countries, and approximately 5,000 people working in various service functions. The service function is founded on the thousands of power plants and marine vessels for which Wärtsilä has supplied engines and equipment over the years under the brand names Wärtsilä or Sulzer, or other names owned by the company. This installed base represents an aggregate output of approx. 125,000 MW. Putting that figure into perspective, a medium-sized nuclear power plant, for example, has a net electrical output of about 1,000 MW.

In the last few years the volume of Wärtsilä's service business has expanded faster than average market growth as a result of changes in Wärtsilä's customer segments. This positive trend is expected to continue.

The increase in the active installed base, i.e. those engines supplied by Wärtsilä itself, provides a natural foundation for further growth. However, since this increase amounts to only about two percent a year, a large proportion of Wärtsilä's 10-15% annual growth target will need to be derived from new services and higher market shares.

Another important driver of growth is technical evolution such as the increasing preference for environmentally sound technology. EnviroEngine conversions on marine vessels, for example, are showing a clear increase as emission standards become progressively more stringent.

TOTAL RESPONSIBILITY FOR THE POWER PLANT

Wärtsilä plans to move from selling individual maintenance services to sales of overall operation and maintenance service agreements. This would require Wärtsilä taking responsibility for an entire power plant, for example, guaranteeing its customer a certain number of megawatt hours of operation annually. Such customers would not then require their own operating personnel, nor would they need to be concerned with service or maintenance at the power plant. Wärtsilä already has O&M agreements at more than 80 power plants and this number has increased strongly in recent years.

O&M agreements free customers to concentrate on their core businesses. This is particularly evident in cases where an energy company focuses on electricity sales, leaving Wärtsilä to handle the entire production process. Khulna Power Operators Ltd in Bangladesh is a good example of such a Wärtsilä agreement; Wärtsilä is committed to operating this customer's power plant for 15 years.

Customers benefit from O&M agreements with the company through Wärtsilä's deep specialized knowledge of power plant operation and supervision, and its ability to ensure operation through preventive and predictive maintenance. Wärtsilä has the advanced technology and solutions necessary for operating power plants efficiently and reliably. An example of this is the recently introduced Condition Based Maintenance (CBM) concept which optimizes operational availability by moving the mainte-

CONDITION-BASED MAINTENANCE OPTIMIZES AVAILABILITY

Wärtsilä is pushing its condition-based maintenance (CBM) concept forward. Simply put, CBM optimizes operational availability by moving the maintenance effort from a scheduled preventative format to a condition-based predictive format, detecting fault sources well in advance of failure, making maintenance proactive rather than reactive.

A step in this direction is the first recently inaugurated CBM centre in Vaasa which will be connected to installations, ship or land-based, whenever a CBM Agreement is made. Data flows from the installation to the Wärtsilä diagnosis system for processing and evaluation. The physical result will be a CBM Report that contains the best possible recommendations for action at that point in time.

This is yet another way in which Wärtsilä offers its customers the best possible tools for safe and economical operation of their investments.

nance effort from a scheduled preventative format to a condition-based predictive format.

In many cases only one operator is required to supervise several power plants simultaneously from one control point. This, of course, implies a far higher degree of efficiency compared to supervision of individual power plants.

The marine and offshore sectors still clearly prefer the traditional business of spare part sales and engine service. Overall, Wärtsilä has service agreements covering more than 300 installations.

Plans call for broadening the range of services offered to shipowners from the service of engines and propulsion systems to include the service of other shipboard systems and equipment. The acquisition of Gothenburg-based Ciserv in Sweden marked an important step in this direction. Ciserv provides a comprehensive range of ship service and repair products and its unique operating concept can be readily deployed elsewhere in the world.

The orders received during 2001 suggest that demand for comprehensive service is expected to grow rapidly. The Norwegian company Petrojarl Foinaven Offshore's FPSO vessel is an example of a new and wide-ranging marine O&M agreement under which Wärtsilä has taken total responsibility for managing the vessel's systems. Similarly, an agreement with the Brazilian oil company Petrobras for the operation and maintenance of a production rig marks a significant breakthrough into the oil industry.

UPGRADING AND MODERNIZATION

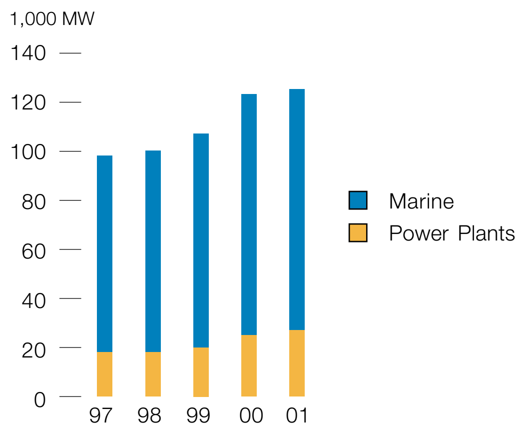
Wärtsilä achieved an important breakthrough with the conversion of the Portuguese textile company Tintrofa S.A's CHP (combined heat and power) plant. Converted from heavy fuel oil operation to natural gas, the new plant's benefits include low emissions and improved plant efficiency. It is anticipated that several similar conversions will follow in other industrial market areas. This is because the possibilities to use natural gas for power generation are increasing.

GREATER COMPETITIVE EFFICIENCY THROUGH E-BUSINESS

Wärtsilä's strategy over the past 20 years has been to build its own service network around the world. The coverage of this network today is extremely good, although it continues to be actively developed. E-business solutions that exploit global communications technology are now emerging to support this globally wide network.

Wärtsilä's Business Online services currently include Spares Online, which enables ships to place orders for spare parts via satellite. Customers gain similar benefit from the ELDOC Online system which employs audiovisual technology to guide service work and the choice of spare parts. These new systems bypass several bottlenecks in traditional supply chains as well as making services more readily available and easier to use.

Wärtsilä engine base 1997-2001



Wärtsilä's engines competitive through flexibility

Despite the active development of renewable fuels, fossil fuels are set to remain by far the most prominent source of energy for a long time to come. Current estimates suggest that fossil fuels will continue to account for some 80% of the world's total energy consumption for a good twenty years from now. Since total energy consumption is rising at an annual rate of roughly 2%, the use of fossil fuels will increase. The use of natural gas, a cleaner fuel than oil, is becoming more pronounced and in the decades ahead gas is expected to surpass oil as the principal energy source.

RENEWABLE FUELS GAIN IN POPULARITY

The use of renewable fuels has been studied extensively. These fuels will gradually account for an increasingly large proportion of total energy consumption driven by global efforts to reduce environmental impacts, particularly of carbon dioxide emissions. Among the various options currently available, the renewable fuels in most widespread application today are biofuels derived from forest, swamp and agricultural biomass, and biofuels produced from the organic biowaste recoverable from municipal, agricultural and industrial processes. Furthermore, oil pressed from oil plants such as olives or rapeseed, as well as oils made from the fatty residues of margarines, can now be used as raw materials for engine fuels. Another interesting alternative is pyrolysis oil extracted during the dry distillation of coniferous wood. The main advantages of biofuels are that they are renewable and that they are instrumental in maintaining the balance of carbon dioxide in the atmosphere.

The EU is committed to doubling the use of renewable energy sources, as a proportion of energy consumption in European countries (excluding Russia), from 6% to 12% by the year 2010. This is an ambitious target and therefore the EU is vigorously supporting investments in projects that exploit renewable fuels. In Finland biofuels are used to produce approximately 20% of the total energy consumed, which makes the country one of the world's major users of biofuels. In the USA, by comparison, the same figure is about 5%. The reason for the widespread use of biofuel in Finland is the large amount of biomass used by the country's pulp and paper industry.

WÄRTSILÄ ENGINES RUN ON A VARIETY OF FUELS

Since the use of different fuels will become more widespread in the future, Wärtsilä is placing high priority on research and development in this area. Wärtsilä's aim is to offer products designed for multifuel operation and that achieve the highest possible efficiency at acceptable emission levels.

Wärtsilä's traditional strength has been in heavy fuel oil technology. In recent years the company's focus has shifted to gas engines, a full range of which Wärtsilä now offers for power and heat generation in the marine industry and in power plants. Wärtsilä engines operate on both light and heavy fuel oils or natural gas. Wärtsilä can also supply engines designed to run on crude oil, bottom oil and bio-oils. Moreover, bitumen-based Orimulsion® has been tested at the Wasa Pilot Power Plant in Vaasa, Finland.

TECHNOLOGY

Wärtsilä designs and develops low-speed, medium-speed and high-speed diesel engines, medium-speed and high-speed gas engines, and related systems and technology, applying these to the needs of the market.

R&D in the Wärtsilä Power Divisions focuses on efficiency and environmental soundness, both of which are important for Wärtsilä's marine and power plant customers. Wärtsilä engines fulfil all essential environmental requirements, and new technologies are available to reduce emission levels even further. New fuels are the subject of continuous research in order to guarantee customers low energy prices in all conditions. Wärtsilä has developed its engines to run on a wide range of demanding liquid fuels and also natural gas.

WÄRTSILÄ SOLUTIONS ON BEHALF OF THE ENVIRONMENT

Technology

- Environmentally advanced product portfolio
- High engine efficiencies, as high as 50%
- Low fuel consumption and emissions, especially CO_2
- Nitrogen oxide reduction technologies
- Smokeless engines
- Multifuel capabilities
- Low lubricating oil consumption
- Long-lasting products

Rune Örn shows what Orimulsion® fuel looks like.

USE OF MULTIFUEL ENGINES INCREASES

One of the latest results of Wärtsilä's R&D efforts is the multifuel engine (Dual-Fuel, DF), which can be operated on heavy or light fuel oil and natural gas. DF engines have been delivered for both land-based power plants and for offshore production units. Demand for multifuel engines is expected to increase strongly in the future, particularly in areas where gas pipelines will be built or where the availability of gas is uncertain since such engines make it possible to switch flexibly between natural gas and oil. The largest Wärtsilä DF engine has a shaft output of approximately 18 MW, which is ample also for large power plants. DF engines also offer a highly competitive solution for power production in the offshore applications and as main engines in LNG carriers.

Wärtsilä is the first in the market to introduce fully electronically controlled multifuel engines. When running on gas these require only very little liquid fuel for the ignition. Wärtsilä's DF engines represent an extremely high level of technical achievement: they are flexible in use, highly efficient and have low exhaust emission levels.

VERSATILITY AND RELIABILITY THE BENEFITS OF RECIPROCATING ENGINES

Reciprocating engines can operate faultlessly in a very broad spectrum of environmental conditions, which increases their range of applications. Their efficiency is also good at low loads. Unlike their main competitor, the gas turbine, the efficiency of the diesel engine does not significantly decrease at partial loads. Wärtsilä engines are built to operate reliably and to last, and every effort is made to optimize them for each application. Ensuring high reliability and optimized operation in all conditions requires a long-term commitment to research and development in which different environmental conditions are simulated mathematically and in the laboratory.

A good example of the suitability of Wärtsilä products for varying conditions is a contract signed in June 2001 to supply equipment for the pumping stations being built for a new crude oil pipeline in Ecuador. The 500 km pipeline across the Andes starts in the oil reserves of the Amazonas in Ecuador, rises to 4,062 metres above sea level, and ends on the Pacific coast. Wärtsilä will supply 22 pumping units, each comprising an engine running on crude oil, a step-up gear and a centrifugal pump.

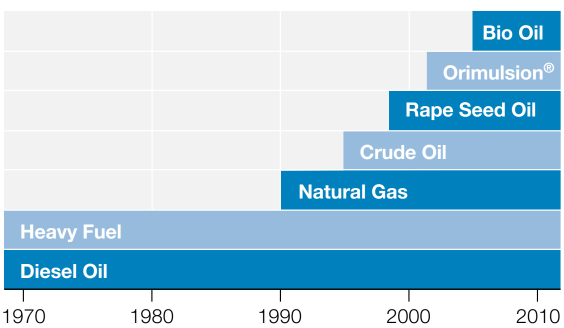
WÄRTSILÄ FOCUSES ON CONTINUOUS R&D

Wärtsilä is continuously improving the applicability and reliability of its products in order to further deepen the strong expertise for which the company is recognized. Wärtsilä also involves its customers and sales people in product development to ensure that customer needs are taken into account as effectively as possible. Parallel with the aim of achieving continuous improvements in reliability and quality, another central development priority at Wärtsilä is to reduce the exhaust gas emissions of the engines and to continuously reduce the environmental impacts of the products.

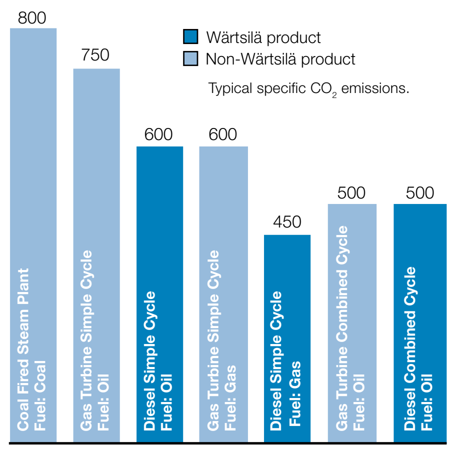
POWER DIVISIONS, RESEARCH AND DEVELOPMENT

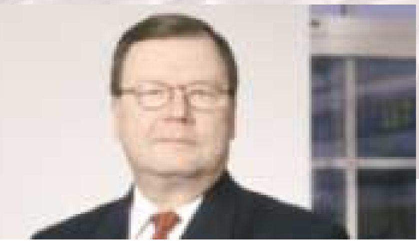
MEUR	2001	2000	1999	1998	1997
R&D expenditure	79.8	79.6	73.5	73.7	82.7
% of net sales	3.7%	3.5%	4.0%	4.3%	3.5%

Status of fuel versatility - Wärtsilä engines



CO_2 in g/kWh produced electricity





Imatra Steel's President Kari Tähtinen.

Management team of Imatra Steel from left: Kalevi Laaksonen, Kalevi Taavitsainen, Kari Tähtinen, Magnus Baarman and Dan-Åke Widenberg.

Imatra Steel – A Skilful Niche Player

Demand for special engineering steels began well in early 2001 but started to fall off during the spring and uncertainty in the markets strengthened as the year wore on. As inventories decreased, steel consumption in Europe fell roughly 4% during the second half of the year compared to the same period in 2000.

The decline in truck production in Europe was especially pronounced during the autumn, falling during the whole year by approximately 8% on the previous year. Car registrations remained unchanged compared to 2000 but uncertainty clearly increased at the end of the year. Demand for special steels in the mechanical engineering industry and among wholesalers weakened distinctly in the last months of the year.

HIGHLIGHTS OF 2001

Imatra Steel's net sales in 2001 totalled EUR 186.4 (194.1) million, down 4.0% from the previous year. All units reported lower delivery volumes. Measures to adjust capacity and production levels were introduced in stages. Imatra Steel's result was also burdened by the weakening of the Swedish krona. The profit before extraordinary items was lower than one year earlier and totalled EUR 3.5 (14.5) million.

The decision was taken in January 2001 to modernize the base metallurgical processes at the Imatra Steel Works. The EUR 21 million investment programme, spanning 2001 and 2003, covers the modernization and upgrading of the continuous casting line, the bloom furnace and the heavy rolling mill. The aim is to further enhance product quality and safeguard the cost-effiency of the base metallurgical process line. The first stage will involve replacing the bar rolling and cutting equipment in the heavy rolling mill. The new machinery will be brought into operation in summer 2002.

Imatra Steel strengthened its position as a component manufacturer with the acquisition of a forge in Scotland. The forge, renamed Imatra Stampings Ltd, manufactures front axle beams for trucks and thus completes Imatra Kilsta's product range. Imatra Steel took ownership of the forge on 6 November 2001. The acquisition reinforces Imatra Kilsta's position as one of the world's leading manufacturers of forged components for the heavy truck industry.

The Billnäs Spring Works began deliveries of high-tension TAPERTEC parabolic springs.

Development at Imatra Steel concentrated on enhancing its partnership model with customers, on improving the quality of workmanship and products, and on continuous learning processes. The company continued to maintain and develop its quality and environment systems in line with the requirements of the QS9000 quality system and ISO14001 environmental system. Personnel development focused on broadening employee skills, raising flexibility and speeding up response times to changes in capacity utilization.

PROSPECTS FOR 2002

For Imatra Steel, the year 2002 has begun under the shadow of uncertain market prospects. The decline in truck production is expected to continue and car production in Europe is expected to begin shrinking. A reduction in consumption of special engineering steels is forecast. Imatra Steel is expected to report an increase in net sales, following growth in its forging operations, and unchanged profits in 2002.

IMATRA STEEL – SPECIAL ENGINEERING STEELS AND AUTOMOTIVE COMPONENTS

Imatra Steel is Wärtsilä's special engineering steels company. Imatra Steel produces round, square and flat special steel bars, forged engine and front axle components, leaf springs and tubular stabilizer bars. The company's customers are European automotive and mechanical engineering companies.

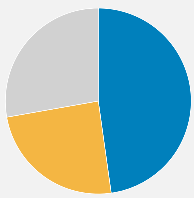
HIGHLIGHTS OF 2001

- Demand for special engineering steels started well in early 2001 but began to decline during the spring.
- Measures to adjust capacity and production load were introduced.
- Renewal of the base metallurgical process at the Imatra Steel Works started.
- Acquisition in Scotland strengthens Imatra Steel's position as a leading world supplier of forged components to the heavy truck industry.

FIVE YEARS IN FIGURES, IMATRA STEEL

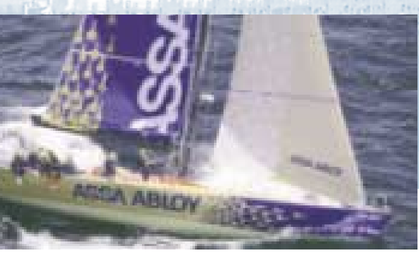
MEUR	2001	2000	1999	1998	1997
Net sales	186.4	194.1	173.0	195.1	174.7
of which outside Finland	84.6%	84.2%	84.4%	83.4%	82.8%
Depreciation and writedowns	–11.5	–11.8	–12.1	–12.0	–10.7
Operating profit	6.4	17.4	10.8	20.8	20.1
Capital employed	118.1	113.9	109.1	107.1	111,1
ROI	6%	16%	10%	20%	18%
Personnel, end of period	1,384	1,280	1,235	1,274	1,176
of which outside Finland	515	372	371	390	325

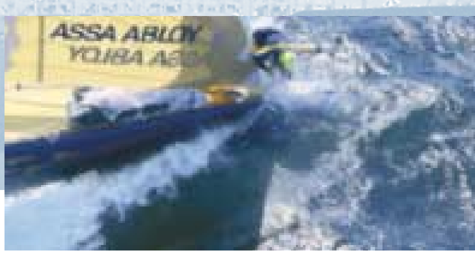
Net sales by market segment 2001

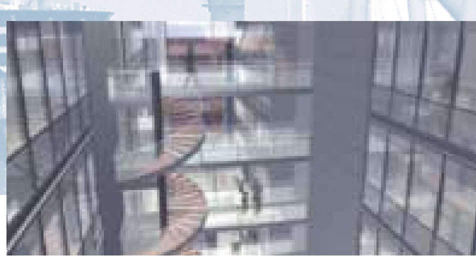


Trucks 43%
Cars 22%
Engineering industries 35%

Imatra Steel publishes its own Annual Report in English and in Finnish giving more detailed information about the company's financial status and business environment.







Holdings

Wärtsilä owns 10.7% of Assa Abloy's shares and plays an active shareholder's role on the Board of Directors. This holding gives Wärtsilä the opportunity to strengthen the Group's financial structure and to develop the Power Divisions, as well as to distribute extra dividends to shareholders.

ASSA ABLOY

Assa Abloy is the world 's leading lock company. The company is listed on the Stockholm Stock Exchange. Wärtsilä's share (10.7%) of Assa Abloy's market capitalization on 31 December 2000 was EUR 614 million. The book value of the holding is EUR 92 million.

Assa Abloy's share of this highly fragmented world market is around 10%. The Group has its origins in the Nordic countries where it enjoys leading market positions.

As the world 's leading lock company Assa Abloy is dedicated to the development of locks and security systems. These range from conventional mechanical locks and door hardware through high-security master key systems to state-of-the-art electromechanical locks, cards and readers for access control, which all contribute to new standards of security throughout the world. The lock business is Assa Abloy's only business and all companies within the Group can therefore benefit from a rich transfer of know-how and from extensive benchmarking activities designed to spread best practices and promote excellence.

Acquisitions of leading companies are a fast and highly effective way to enter mature markets. They bring strong brands, an installed base with its recurring business and well established distribution channels. Acquisitions are also a way to expand the Group's area of competence. HID in the USA, the world's leading manufacturer of contactless cards and readers for access control, illustrates this approach.

In 2001 the net sales of Assa Abloy were EUR 2.4 (1.7) billion and profit before extraordinary items EUR 160 (165) million. The Group employs approximately 25,000 people. There are opportunities for higher margins in both old and newly acquired companies.

WÄRTSILÄ REAL ESTATE

Wärtsilä Real Estate is responsible for developing, selling, leasing and maintaining the property assets in the parent company's balance sheet. Most of these properties are unrelated to the company's operations. Wärtsilä Real Estate also provides professional services in transactions concerning the property assets used by the Group. In this context the unit started a project called Corporate Real Estate with the purpose of creating added value for the Group's core businesses and putting the property assets used by the Group to more efficient use.

The real estate market in Finland remained relatively buoyant during the first half of 2001 but this was followed by signs of a change as companies appeared increasingly cautious about acquiring new business premises. Rising rent levels and demand for office space in the Helsinki metropolitan area began to decline during the autumn but remained stable for the remainder of the year. However, demand for business premises is not expected to start improving again until the end of 2002.

Wärtsilä Real Estate's largest property development project is the Arabianranta art and media industry centre where the construction of externally financed residential and business premises totalling 26,000 floor-m^2 was in progress on land owned by the company during 2001. Wärtsilä still owns 86,000 floor-m2 of building rights for office premises on this site. The largest property transactions during the year were the sale of a property in the City of Vantaa, and the sale of an office site on the Arabianranta site in Helsinki.

Wärtsilä Real Estate sold properties and shares in housing companies worth altogether EUR 10.8 (29.5) million in 2001, which yielded a profit of EUR 6.3 (10.1) million.

At the end of the year the properties managed by Wärtsilä Real Estate, excluding the properties used by Wärtsilä itself, had a total book value of EUR 21.4 (27.5) million.

Shares and shareholders

Wärtsilä Corporation's shares are listed on the main list of the Helsinki Stock Exchange. The shares are also traded on the SEAQ International (Stock Exchange Automatic Quotation) system on the London Stock Exchange.

Wärtsilä Corporation's share capital is minimum EUR 87.5 million and maximum EUR 350 million. Within these limits the share capital may be raised or lowered without amending the Articles of Association. The company's paid-up and registered share capital is EUR 208,088,510. Series A shares carry 10 votes and Series B shares 1 vote at general shareholders' meetings. The nominal value of the share is EUR 3.50. All shares carry equal dividend rights. There are 59,453,860 shares in all: 15,414,429 A shares and 44,039,431 B shares.

CONVERTIBLE SUBORDINATED DEBENTURES AND BONDS WITH WARRANTS FOR MANAGEMENT

In March 1994 the Board floated two convertible capital notes issues, each of the same amount and together totalling EUR 117.7 million. One is convertible into Series A and Series B shares, and the other into Series B shares. On 14 June 2001 Wärtsilä announced that it would exercise its right to repay the convertible subordinated debentures based on the performance of the share price. However, the condition underlying repayment, a share price of EUR 24.03 on the day preceding repayment, 13 July 2001, was not fulfilled and the repayment did not therefore take place.

Notwithstanding the repayment conditions, altogether 1,479,017 Series A shares and 3,714,885 Series B shares, i.e. 5,193,902 shares in all, were converted during 2001. The calculated conversion rate until the Annual General Meeting on 20 March 2001 was EUR 19.11 per share, after which it was reduced to EUR 17.16 per share following the payment of an extra dividend approved by the AGM. Altogether 1,487,761 A shares and 3,728,973 B shares had been converted by 31 December 2001, representing EUR 89.7 million of the loan principal.

The company has also issued bonds with warrants for a nominal value of EUR 30,274 to company executives based on the authorization of the 1996 AGM. The bonds have been subscribed by 34 members of corporate and division management at that time. The right to subscribe for shares began on 1 September 1996 and ends on 2 May 2003, when the principal will be repaid.

A total of 57,600 Wärtsilä Series B shares were subscribed during 2001 based on the 1996 warrants. The subscription price was EUR 13.49 per share until the AGM on 20 March 2001, after which it was reduced to EUR 11.49 per share following the payment of an extra dividend approved by the AGM. Altogether 67,200 Series B shares (0.1% of the total number of shares and 0.03% of the voting rights) have so far been subscribed based on these warrants.

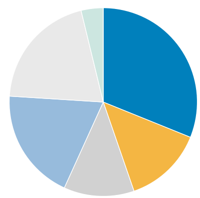
Following the decision of the AGM on 20 March 2001, a total of 1,500,000 warrants were issued to key persons in the Wärtsilä Group, entitling them to subscribe for the same number of Wärtsilä B shares. The share subscription period begins on 1 April 2003 and ends on 31 March 2007. The share subscription price is EUR 31.72 and any extra dividends distributed before the subscription of shares will be deducted from this price. The share warrant scheme covers 80 individuals.

Conversions and subscriptions during 2001 raised Wärtsilä's share capital by altogether EUR 18,380,257. The number of A shares

Share information

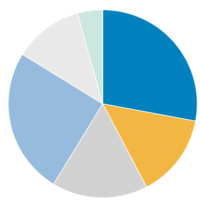
	Series A	Series B
Share lot	100	100
Votes/share	10	1
Taxation 2001		
EUR/share	14.28	14.19

Ownership structure according to shares



- Private corporations 24.7%
- Banks and insurance co. 12.7%
- Public sector entities 14.5%
- Non-profit organizations 15.4%
- Households 22.2%
- Outside Finland and nominee-registered 10.5%

Ownership structure according to votes



- Private corporations 31.1%
- Banks and insurance co. 13.6%
- Public sector entities 12.1%
- Non-profit organizations 19.2%
- Households 20.2%
- Outside Finland and nominee-registered 3.8%

rose by 1,479,017 and the number of B shares by 3,772,485, making a total of 5,251,502 shares and 18,562,655 votes.

MANAGEMENT HOLDINGS

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 1,859,546 Wärtsilä Corporation shares, which represent 3.13% of the stock and 4.34% of the voting rights.

Under the 2001 warrants issue the CEO and his deputy hold 126,000 warrants, entitling them to subscribe for at most 126,000 shares, or 0.2% of the current total number of shares and 0.06% of the voting rights.

Under the 1996 bond with warrants the CEO's deputy holds 8 warrants which, if exercised, would raise his shareholding to at most 9,600 shares, or 0.02% of the current total number of shares and 0.005% of the voting rights.

SUBSEQUENT EVENTS

Based on agreements between If Skadeförsäkring Holding AB and Sampo Oyj, If Skadeförsäkring Holding AB group's holding in Wärtsilä Corporation has risen above 5% of Wärtsilä Corporation's votes, and Sampo Oyj's holding of the shares and votes of Wärtsilä Corporation has fallen below 5%. This change took place on 2 January 2002.

BOARD'S PROPOSALS TO THE ANNUAL GENERAL MEETING

The Board proposes to the Annual General Meeting on 12 March 2002 that a dividend of EUR 0.50 per share and an extra dividend of EUR 3.50 per share be distributed on the financial year ended 31 December 2001.

With respect to the extra dividend the Board proposes that the conversion ratio of the 1994 convertible subordinated debentures and the subscription price of the Wärtsilä shares subscribable under the warrants attached to the 1996 bond with warrants be changed corresponding to the amount of the extra dividend.

Furthermore, the Board proposes that the AGM authorize the Board for one year to repurchase the company's own shares in public trading on the Helsinki Stock Exchange at the prevailing price, disapplying shareholders' pre-emptive subscription rights. At most 770,721 A shares and at most 2,201,971 B shares may be repurchased, representing at most 5% of all the shares and votes. This authorization also includes the right to dispose of the company's shares repurchased in this manner at a price at least equal to the share price prevailing on the Helsinki Stock Exchange at the time of surrender, disapplying shareholders' rights. At the same time the Board proposes that the unexercised authorization granted by the AGM on 20 March 2001 to repurchase and dispose of the company's own shares be revoked.

The Board also proposes that warrants be issued to key personnel in Wärtsilä Group. The Board proposes that altogether 800,000 warrants be issued allowing subscription of the same number of Wärtsilä Corporation shares. The shares subscribable under these warrants will represent 1.3% of the share capital and 0.4% of the votes. Issuing of the warrants will be contingent upon the company reaching the minimum profitability targets set by the Board for the financial year 2003.

The purpose of the share option programme is to encourage key employees to work on a long-term basis in order to raise shareholder value and to increase their commitment to the company.

Dilution effect of the convertible subordinated debentures and option schemes

	Number	Shares %	Share capital EUR	Votes %	Conversion/Subscription terms Price	Time
Conv. subord. debentures	1,635,424	2.8	5,723,984	1.8	17.16	2 Jan.-30 Nov. annually
Bonds with warrants (1996)	148,800	0.3	520,800	0.1	11.49	until 2 May 2003[1]
Share option programme (2001)	1,500,000	2.5	5,250,000	0.8	31.72	1 April 2003-31 March 2007[1]
Total	3,284,224	5.5	11,494,784	2.7		

Number of Wärtsilä shares 62,738,084 and number of votes 203,487,725, if all conversion and subscription rights are exercised.

[1]*Subscription period annually between 2 January and 30 November.*

Change in share capital	Series A Shares	%	Votes	%	Series B Shares	%	Votes	%	Total Shares	Votes
Shares/votes 31 Dec. 2001	13,935,412	25.7	139,354,120	77.6	40,266,946	74.3	40,266,946	22.4	54,202,358	179,621,066
Debentures converted	1,479,017		14,790,170		3,714,885		3,714,885		5,193,902	18,505,055
Bonds with warrants subscribed					57,600		57,600		57,600	57,600
Total 31 December 2001	15,414,429	25.9	154,144,290	77.8	44,039,431	74.1	44,039,431	22.2	59,453,860	198,183,721

The Wärtsilä share on the Helsinki Stock Exchange

		2001	2000	1999	1998	1997
Trading volume	MEUR					
Series A		39.8	27.4	17.3	44.8	65.2
Series B		392.6	332.9	310.0	474.1	403.4
Total		432.4	360.3	327.3	518.9	468.6
Number traded	1,000					
Series A		1,902	1,359	924	2,018	2,611
Series B		17,912	16,636	16,825	20,748	16,255
Total		19,814	17,995	17,749	22,766	18,866
Stock turnover	%					
Series A		13.2	9.8	6.6	14.5	18.8
Series B		43.1	41.3	41.8	51.7	40.6
Total		35.4	33.2	32.7	42.1	35.0
Average share price	EUR					
Series A		20.94	20.14	18.69	22.19	24.95
Series B		21.92	20.01	18.43	22.86	24.86
Trading low/high	EUR					
Series A	low	18.03	16.30	14.60	12.61	20.18
	high	25.50	25.00	23.75	32.96	32.96
Series B	low	18.25	17.00	13.71	12.78	19.88
	high	26.00	24.30	24.00	33.30	32.8
Share price at year end	EUR					
Series A		20.60	19.50	18.20	15.09	21.70
Series B		20.80	19.70	18.50	14.80	21.53
Year-end market capitalization	MEUR	1,234	1,065	999	806	1,163

The present company name Wärtsilä Corporation, domicile Helsinki, was entered in the Trade Register on 22 September 2000.

Wärtsilä company and share codes:

Helsinki Exchanges	WRT
Series A	WRTAV
Series B	WRTBV

Reuters´ RIC	
Series A	WRTAV.HE
Series B	WRTBV.HE

Bloomberg	
Series A	WRTAV FH
Series B	WRTBV FH

Key figures for Wärtsilä shares

		2001	2000	1999	1998	1997
Earnings per share (EPS)	EUR	5.53	4.20	2.43	0.45	0.92
Book value of equity/share	EUR	18.60	14.59	13.09	11.6	12.11
Dividend/share	EUR	4.00 [1]	2.65	2.85	1.55	0.46
Dividend/earnings	%	72.3 [1]	63.1	117.3	344.4	50.4
Dividend yield	%					
Series A		19.42 [1]	13.61	15.66	10.27	2.12
Series B		19.23 [1]	13.55	15.41	10.47	2.16
Price per earnings						
Series A		3.7	4.6	7.5	36.4	23.8
Series B		3.8	4.7	7.6	35.7	23.3
Price to book value (P/BV)						
Series A		1.1	1.3	1.4	1.3	1.8
Series B		1.1	1.3	1.4	1.2	1.8
Adjusted number of shares	1,000					
end of financial year		59,454	54,202	54,200	54,199	53,901
on average		56,097	54,200	54,199	54,050	53,868

[1] *Proposal by the Board of Directors.*

The share prices before 1999 have been converted into EUR using the exchange rate 1 EUR=FIM 5.94573.

Formulas for calculating the financial ratios are given on page 69.

The adjacent tables are based on the book-entry accounts at 28 December 2001.

Wärtsilä has 20,202 registered shareholders.

Major shareholders

		No. of shares x 1,000 Series A		Series B		% of votes	% of shares
1.	Fiskars Corporation		4,104		6,290	23.9	17.5
2.	Sampo Plc	625		659			
	Sampo Industrial Insurance Ltd.	447		553			
	Sampo Life Insurance Company Ltd.	595	1,667	1,096	2,308	9.6	6.7
3.	Varma-Sampo Mutual Pension Insurance Company		995		1,115	5.6	3.5
4.	Svenska Litteratursällskapet		953		21	4.8	1.6
5.	Agrofin Oy Ab		465		727	2.8	2.0
6.	Ilmarinen Mutual Pension Insurance Company		237		1,515	2.0	2.9
7.	Tapiola General Mutual Insurance Company	131		331			
	Tapiola Mutual Pension Insurance Company	81		511			
	Tapiola Mutual Life Assurance Company	0		276			
	Tapiola Corporate Life Insurance Company	0	212	115	1233	1.7	2.4
8.	Brita Maria Renlund Foundation		228		330	1.4	0.9
9.	Association of Finnish Metal Industries		216		351	1.3	1.0
10.	Signe and Ane Gyllenberg Foundation		212		160	1.2	0.6
11.	The Social Insurance Institution		165		377	1.1	0.9
12.	Sigrid Juselius Foundation		209		165	1.1	0.6
13.	Eläkesäätiö Polaris		158		229	0.8	0.6
14.	Magnus Ehrnrooths Foundation		138		112	0.8	0.4
15.	Livränteanstalten Hereditas		104		309	0.7	0.7
	15 largest total		10,063		15,242	58.8	42.3

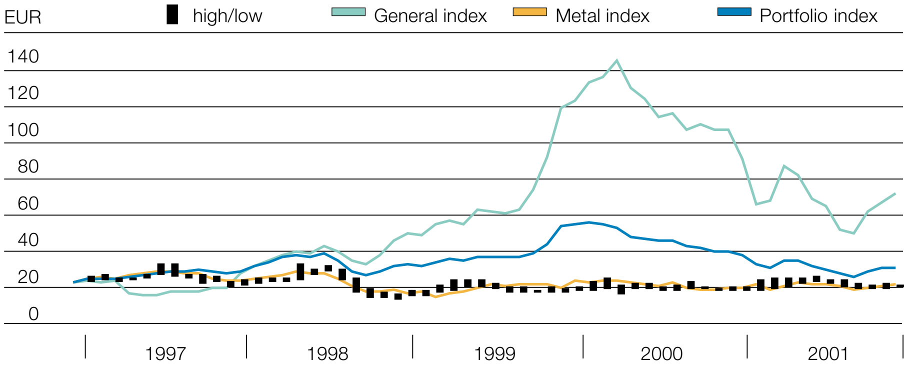
Division of shares

	Series A				Series B			
Number of shares	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1-100	5,898	55.7	249,943	1.6	5,769	30.7	332,263	0.8
101-1,000	3,973	37.6	1,294,358	8.4	10,363	55.0	3,767,432	8.6
1,001-10,000	626	5.9	1,574,811	10.2	2,386	12.7	6,418,789	14.6
10,001-100,000	62	0.6	1,992,344	13.0	267	1.4	7,243,263	16.4
100,001-1,000,000	19	0.2	6,199,119	40.2	37	0.2	9,796,389	22.2
1,000,001-	1	0.0	4,103,854	26.6	6	0.0	16,481,295	37.4
	10,579	100	15,414,429	100	18,828	100	44,039,431	100

Ownership structure

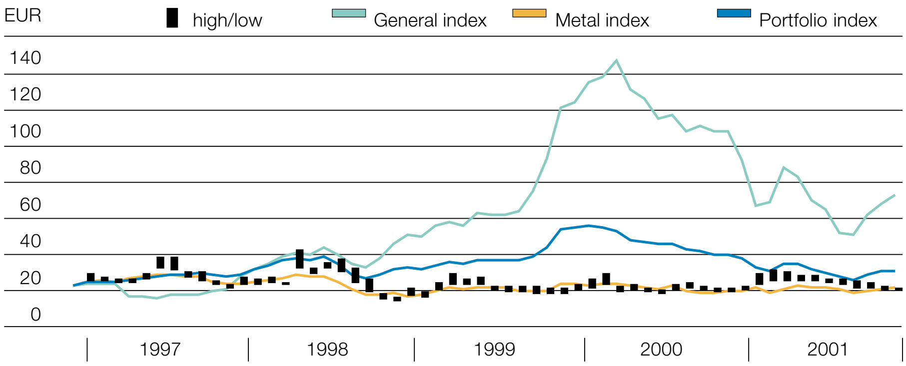
%	Series A Shareholders	Shares	Series B Shareholders	Shares	Total Votes	Shares
Private corporations	2.4	8.8	3.7	15.9	31.1	24.7
Banks and insurance companies	0.2	3.6	0.5	9.1	13.6	12.7
Public sector entities	0.3	2.9	0.4	11.6	12.1	14.5
Non-profit organizations	3.6	5.4	3.7	10.1	19.2	15.4
Households	92.3	5.0	90.6	17.1	20.2	22.2
Outside Finland and nominee-registered	1.2	0.2	1.1	10.3	3.8	10.5
	100	25.9	100	74.1	100	100

SERIES A QUOTATIONS



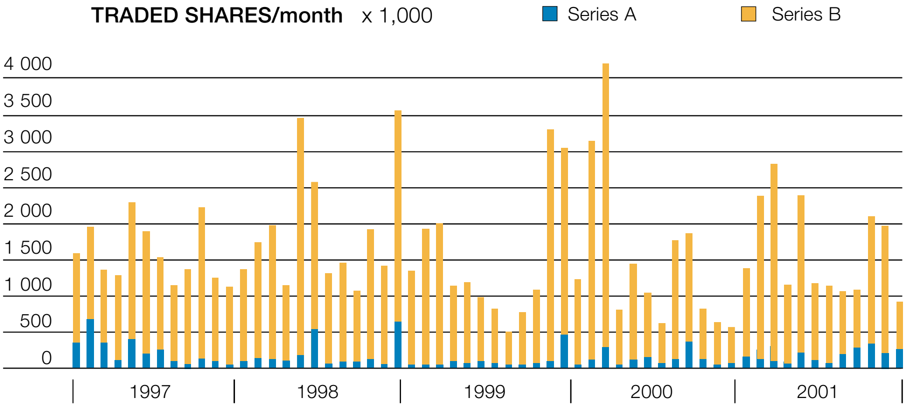
The adjacent diagrams describe share price trends from 2 January 1997 to 28 December 2001.

SERIES B QUOTATIONS

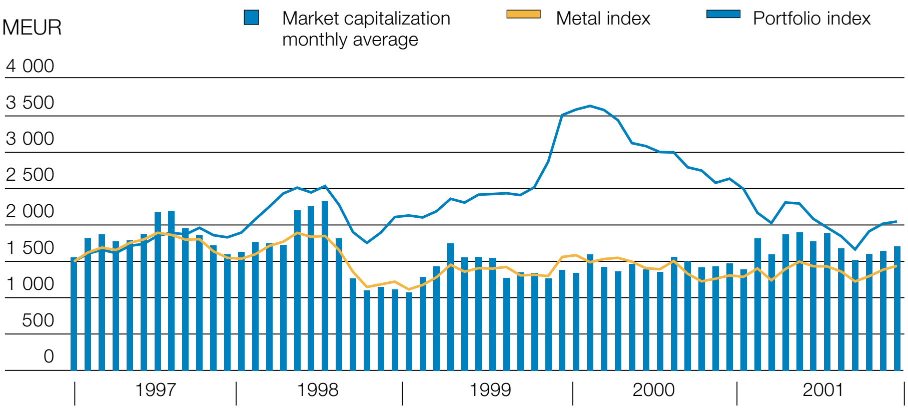


The HEX general index, portfolio index and metal index have been indexed to the Wärtsilä share price.

TRADED SHARES/month x 1,000



MARKET CAPITALIZATION



Approximately 5.9 million Wärtsilä shares, i.e. 10.5% of all Wärtsilä shares, were traded on the SEAQ system in London during 2001.

Report by the Board of Directors 2001

NET SALES AND RESULT

Wärtsilä Group's net sales totalled EUR 2,358.7 million (2,706.8). Comparable net sales after eliminating the changes in the Group's structure decreased 5.0%. Net sales of the Power Divisions decreased to EUR 2,174.3 million (2,287.8) and Imatra Steel's net sales to EUR 186.4 million (194.1).

The Group's operating profit was EUR 523.9 million (367.1). This included non-recurring capital gains from the sale of Assa Abloy and Sanitec shares, totalling EUR 550.4 million, as well as EUR 122.4 million in restructuring provisions related to the Power Divisions. The comparable operating profit included EUR 225.4 million non-recurring capital gains. The operating profit margin of the Power Divisions was on the same level as last year. Imatra Steel's profitability declined.

Net financial expenses decreased to EUR 15.2 million (31.0) and represented 0.6% (1.1) of consolidated net sales. Dividends from Sanitec, EUR 8.6 million (0.0), and from Assa Abloy, EUR 5.7 million (5.7), were recorded under financial items in Wärtsilä's accounts. The profit before extraordinary items was EUR 508.7 million (336.1).

Taxes totalled EUR 194.7 million (96.4) including EUR 219.5 million (93.3) in taxes for the financial year. The effect of non-recurring items in total taxation amounted to EUR 196.1 million (65.4). Deferred tax assets totalling EUR 31.7 million were recorded based on confirmed tax losses of foreign subsidiaries.

Wärtsilä Group recorded EUR 305.7 million (213.2) as profit for the financial year. Earnings per share were EUR 5.53 (4.20), which included non-recurring items of EUR 4.13 (2.95). Return on investment (ROI) was 43.0% (25.4) and return on shareholders' equity (ROE) was 33.7% (27.6).

FINANCING AND CAPITAL EXPENDITURE

Wärtsilä's cash flow after investing activities was strong in the period, EUR 532.5 million (221.4), as a result of large share disposals. Cash flow from the Power Divisions was negative. Stock levels increased owing to the timing of large deliveries. Imatra Steel's cash flow, EUR 0.6 million (5.0), included an acquisition.

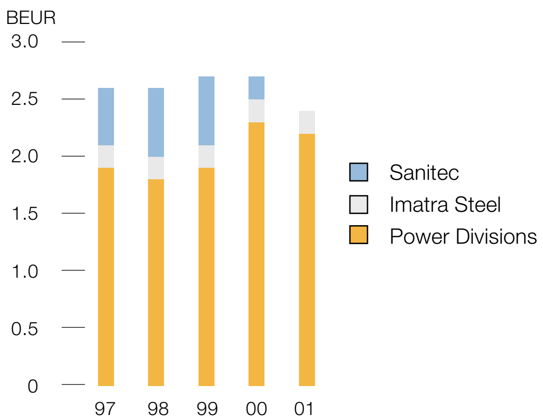
The Group's financial position was good. Cash reserves at the close of the period totalled EUR 184.6 million (118.9). Net interest-bearing loan capital was EUR -56.5 million (396.7). The solvency ratio improved to 47.3% (35.1) and gearing was 0.01 (0.60). Treating the convertible subordinated debentures as shareholders' equity, the solvency ratio improved to 48.6% (40.2) and gearing was -0.02 (0.40).

Capital expenditure during the period amounted to EUR 97.1 million (207.7), which comprised EUR 29.6 million (151.7) on investments in shares and EUR 67.5 million (56.0) on production investments. Depreciation was EUR 126.0 million (103.1), which included a write down of EUR 37.5 million related to non-recurring restructuring measures and EUR 11.3 million in amortisation of goodwill.

In June Wärtsilä acquired the Swedish marine service company Ciserv AB, which had net sales in 2001 of approx. EUR 9 million. In October Wärtsilä acquired the Finnish biofuel power plant manufacturer Sermet Oy, which had net sales in 2001 totalling approx. EUR 23 million. In November Imatra Steel acquired a forge in Scotland which was renamed Imatra Stampings Ltd; its net sales in 2001 totalled approx. EUR 22 million.

In January 2002 Wärtsilä concluded an agreement covering the acquisition of John Crane-Lips, a leading global supplier of marine propulsion systems. This company's net sales in 2001 amounted to EUR 249.4 million with

Development of net sales



Net sales

MEUR	2001	2000	Change-%
Marine Division	595.1	719.7	-17.3 %
Power Plants Division	760.6	834.6	-8.9 %
Service Division	790.4	702.0	12.6 %
Other operations	28.2	34.4	-18.0 %
Imatra Steel	186.4	194.1	-4.0 %
Intragroup sales	-2.0	-2.4	
Ongoing operations	2,358.7	2,482.4	-5.0 %
Sanitec		224.4	
Group	2,358.7	2,706.8	-12.9 %

1,200 employees. Its profitability is good. The acquisition price was approx. EUR 350 million.

Research and Development in the Power Divisions totalled EUR 79.8 million (79.6), or 3.7% (3.5) of their net sales. Imatra Steel's R&D expenditure was EUR 1.7 million (1.9).

CHANGES IN GROUP STRUCTURE

In June Wärtsilä sold its entire holding in Sanitec, 46.7% of Sanitec's share capital. In Wärtsilä's 2000 accounts Sanitec was consolidated as a subsidiary until the end of March and as an associated company from the beginning of April. Sanitec was no longer consolidated as an associated company in 2001.

Ciserv has been consolidated in the Service division's accounts from 1 July 2001. Sermet has been consolidated in the Power Plants' accounts from 17 October 2001 and Imatra Stampings from 6 November 2001.

THE POWER DIVISIONS

The Power Divisions generated net sales of EUR 2,174.3 million (2,287.8), down 5.0% on the previous year mainly because of a fall in Marine's net sales. Power plants and marine engines totalling 3,794 MW (4,505) were delivered to customers. New orders amounting to EUR 2,040.4 million (2,460.6) were received during the year. The year-end order book stood at EUR 1,516.5 million (1,624.2). Power Divisions' operating profit was EUR 87.8 million (86.2) or 4.0% (3.8) of their net sales. After restructuring provisions totalling EUR 122.4 million (0.0), the Power Divisions showed an operating loss of EUR -34.6 million (86.2).

Early in the year the company decided to close its factory in Mantes, France, and to centralize its project and service organizations. The cost impact of these measures was EUR 32 million and the pay-back period 2-3 years. The measures were fully implemented by the end of 2001.

In November Wärtsilä announced its intention to further streamline its manufacturing capacity in line with market volume. Under this plan the Dutch company will become a sales and service company and the intention is to close the Zwolle factory and move its manufacturing operations to Trieste in Italy. Consultations with personnel are in progress. Wärtsilä is looking for a new occupant for the Dutch factory who could also employ the local personnel. The EUR 90 million provision already made is calculated to be sufficient to cover the costs of the streamlining and capacity reduction measures, most of which will be incurred in the Netherlands.

Megawatts delivered

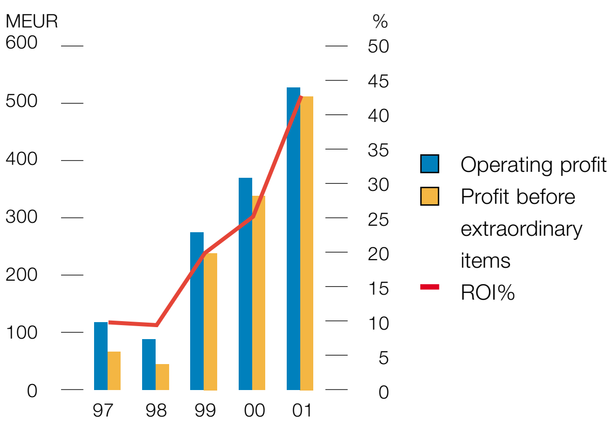
	2001	2000	Change %
Power Plants	1,449	1,737	-17
Marine, own deliveries	2,346	2,768	-15
Wärtsilä total	3,794	4,505	-16
By licensees	2,378	2,990	-20
Wärtsilä and Sulzer engines,total	6,172	7,495	-18

MARINE

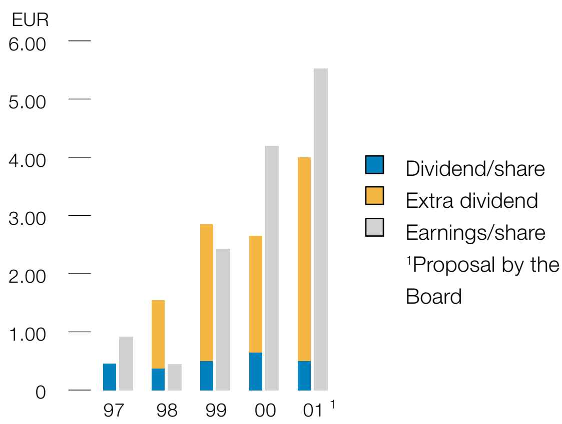
The general slowdown in world economic growth was reflected in the shipbuilding industry. Weak growth combined with a fall in oil prices also delayed the predicted increase in investment activity in the offshore sector. Shipyards will still operate at full capacity through 2002, however, and Wärtsilä's marine order book is at a good level.

The John Crane-Lips acquisition substantially strengthens Wärtsilä's position as the world's leading ship power supplier. The integration of the product portfolios of

Result



Earnings/share Dividend/share



Wärtsilä and John Crane-Lips into complete systems is being enhanced. The acquisition also makes Wärtsilä a leading supplier of marine seals and bearings in addition to significantly strengthening its position as a supplier to the naval sector. The acquisition is estimated to increase Marine's net sales by EUR 235 million.

The total marine engine market increased 18% to 28,036 MW between June 2000 and May 2001 according to statistics released by Diesel & Gas Turbine Worldwide. Growth was particularly significant in high-speed engines. The company's brands, Wärtsilä and Sulzer, had a market share of 22% (28). According to Wärtsilä´s statistics Wärtsilä maintained its market share in main engines. The market share in medium-speed main engines was 37% (38) and low-speed main engines 26% (25). Wärtsilä holds a strong position in the marine market especially in RoPax and RoRo vessels, cruise ships and large containerships.

Wärtsilä shipped Wärtsilä and Sulzer engines totalling 2,346 MW (2,768) during the year. Its licensees supplied a further 2,378 MW (2,990) of low-speed Sulzer engines.

POWER PLANTS

The power market reflected major fluctuations in the prices of all forms of energy during 2001. The financial difficulties of a large electricity trading corporation added to uncertainty in the energy sector. Despite the dramatic world events oil prices were clearly lower at the end of the year than at the beginning.

The main markets for gas power plants were once again Continental Europe and especially the USA, where Wärtsilä supplied gas power plants totalling more than 300 MW. A power plant ordered for Colorado in June was the largest (110 MW) of this type in Wärtsilä's history. The biggest orders for heavy fuel oil power plants came from Turkey, El Salvador, the Azores, Sudan, India, Sri Lanka, Taiwan and Japan. Wärtsilä received its largest power plant order ever (160 MW) from Guatemala at the end of the year, for delivery in 2002 and 2003.

Wärtsilä broadened its product portfolio to include biofuel-fired power plants, strengthening its position in decentralized power generation. In October Wärtsilä acquired the Finnish company Sermet, which specializes in small and medium-sized boilers fired with biofuels, oil and gas.

The Power Plants division's focus on offering multi-fuel alternatives, modularized products and professional project management services has strengthened customer confidence in Wärtsilä's products and concepts. A good example is the Wärtsilä Power Module, a modular power plant designed for turnkey delivery.

The total market for HFO engines and gas turbines was 2,226 MW between 1 June 2000 and 31 May 2001, up 3% on the previous one-year period, according to Diesel & Gas Turbine Worldwide's statistics. Wärtsilä's market share was 50% (58). The market for small gas turbines (unit size 1-60 MW) increased to 17,264 MW (+34%). Wärtsilä's share of this market segment was 398 MW (281) (+42%).

The volume of power plants delivered by Wärtsilä in 2001 was 1,449 MW (1,737). The volume of HFO power plants decreased to 982 MW (1,574) whereas the volume of gas power plants increased to 467 MW (163).

SERVICE

Net sales of the Service division increased 12.6% in line with long-term targets. Net sales from low-speed engine service rose even faster, 15%, despite tough competition. The aggregate output of engines covered by Wärtsilä's

Operating profit	**MEUR**		**EBIT %**		**ROI %**	
	2001	2000	2001	2000	2001	2000
Power Divisions	87.8	86.2	4.0	3.8	11.1	12.1
Imatra Steel	6.4	17.4	3.4	9.0	6.0	15.6
Other operations	1.6	7.8				
Operational EBIT	95.8	111.4	4.1	4.2	10.7	11.3
Non-recurring expenses, Power Divisions	-122.4					
Capital gains	550.4	225.4				
Sanitec		30.3				
Group	523.9	367.1	22.2	13.6	43.0	25.4

service agreements exceeded 10,000 MW, or 9% of Wärtsilä's active engine base.

The volume of Operations and Maintenance (O&M) agreements increased 34.5% on the previous year. The most significant O&M agreement was made in the Dominican Republic, where Wärtsilä is responsible for operating the world's largest floating power plant, Sultana del Este (149 MW).

The acquisition of Ciserv AB in Sweden was completed in June, strengthening Wärtsilä's position as a supplier of comprehensive marine maintenance and repair services and broadening Wärtsilä's portfolio of service products. The acquisition marks an important step in Wärtsilä's plans to extend the coverage of its service activities to engines and ship equipment supplied by other vendors.

During the year greater emphasis was placed on developing new service products and speeding up delivery. Examples include O&M services, product renewals and upgrades as well as online services.

RESEARCH AND DEVELOPMENT

The focus of Wärtsilä´s R&D is on environmentally sound combustion and engine technology. Wärtsilä, as a leading manufacturer, is a pioneer in the application of new technology to heavy-duty medium-speed and low-speed diesel engines. Last year Wärtsilä shipped eight medium-speed engines equipped with common-rail technology from its Turku factory. The first common rail low-speed engine has accumulated more than 1,000 operating hours.

In the spring Wärtsilä was granted a prestigious environmental award by Lloyd's List in recognition of its smokeless EnviroEngine technology. Wärtsilä gained further recognition during the year when its first environmental report was judged the best in Finland.

Major achievements in gas engines included the successful testing of the 50DF engine and its release for sale, and the first marine order for a 32DF engine. Development of engines running on Orimulsion® continued during the year and showed successful progress.

Wärtsilä's portfolio of medium-speed engines is new and modern. Their further development is focusing, in addition to environmental issues, on raising efficiency and on optimizing their operating characteristics and cost structure. In low-speed engines, the first RT-flex 60C engine has been the subject of intense design and development at the Trieste factory.

ENGINE MANUFACTURING

Capacity load during 2001 varied unevenly among Wärtsilä´s factories. Volumes at Mulhouse in France were clearly higher than in the previous year. The order book for low-speed engines in Italy is record high.

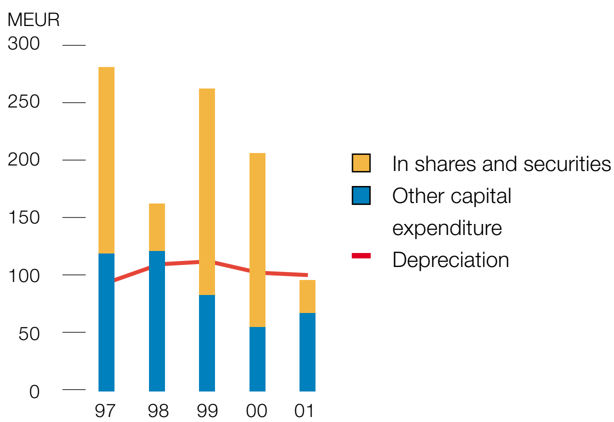
Flexibility in production was improved and concentration on key expertise continued when the manufacture of welded components at Trieste was outsourced.

The order intake slowed down during the latter half of the year, which contributed to the plan to close the Dutch factory. Under this plan manufacturing of the Wärtsilä 26 and Wärtsilä 38 engines will be moved to Trieste, raising Trieste's critical mass and reducing unit costs. The move will have no impact on the company's engine portfolio.

IMATRA STEEL

Demand for special engineering steels started well in early 2001 but began to decline during the spring. Steel consumption in Europe fell roughly 4% during the second half of the year compared to the same period in 2000.

Gross capital expenditure and depreciation



Gross capital expenditure

MEUR	2001	2000
Investments in securities and acquisitions		
Power Divisions	21.0	14.1
Imatra Steel	7.8	
Other operations	0.7	137.6
	29.6	151.7
Other investments		
Power Divisions	56.8	47.4
Imatra Steel	10.7	7.7
Other operations	0.0	0.9
	67.5	56.0
Group	97.1	207.7

Truck production in Europe declined and the decrease for the whole year was approximately 8% compared to 2000. Car registrations remained unchanged but uncertainty clearly increased at the end of the year. Demand for special steels in the mechanical engineering industry and among wholesalers weakened distinctly towards the year end.

Imatra Steel's net sales in 2001 totalled EUR 186.4 million (194.1), down 4.0% on the previous year. Measures to adjust capacity and production load were introduced in stages. Despite these, profitability weakened and the operating profit was EUR 6.4 million (17.4).

In January 2001 the decision was made to renew the base metallurgical process at the Imatra Steel Works between 2001 and 2003.

In November Imatra Steel acquired a forge in Scotland, strengthening its position as a leading world supplier of forged components to the heavy truck industry. The forge, renamed Imatra Stampings Ltd, produces front axle beams for trucks and thus complements Imatra Kilsta's product range.

HOLDINGS

In June Wärtsilä sold its entire 46.7% holding in Sanitec to a new company founded by the private equity fund BC Partners for EUR 419 million. Wärtsilä recorded a capital gain of EUR 254 million on this deal, or a gain after taxes of EUR 2.56 per share.

In May Wärtsilä sold 20 million Assa Abloy shares, recording a capital gain of EUR 297 million or EUR 3.75 per share after taxes. Since this disposal Wärtsilä's holding in Assa Abloy has been 10.7%. The market capitalization of this holding at the close of the period was EUR 614 million. Its book value in the consolidated balance sheet is EUR 92 million.

Wärtsilä Real Estate sold properties and shares in housing companies totalling EUR 10.8 million (29.5), which yielded a profit of EUR 6.3 million (10.1). The book value of the real estate portfolio, excluding the properties in use by the Group itself, totalled EUR 21.4 million (27.5) at the year end.

CORPORATE MANAGEMENT AND PERSONNEL

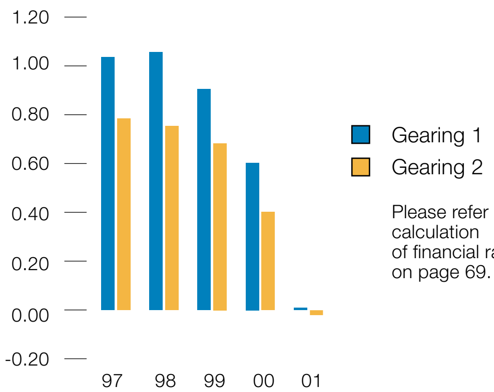
Pekka Ahlqvist was appointed Group Vice President, Power Plants, and a member of Wärtsilä's Board of Management at the beginning March after his predecessor left the company.

The Group had 10,846 (12,800) employees on average during the year and 11,122 (10,564) at the year end. The Power Divisions had 9,738 (9,255) employees at the year end. The increase was mainly due to an increase in operations and maintenance personnel in the Service division and to the acquisitions of Ciserv and Sermet. Negotiations are currently in progress which could lead to a reduction of personnel, principally in Zwolle. Conversely, the John Crane-Lips acquisition will increase total personnel.

DEBENTURES AND OPTION SCHEME

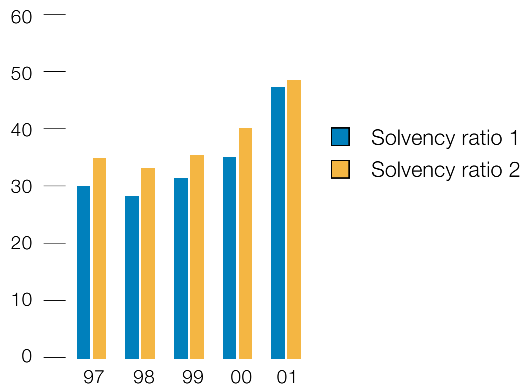
In March 1994 Wärtsilä floated two convertible capital notes issues, each of the same amount and together totalling EUR 117.7 million. One is convertible into Series A and Series B shares, and the other into Series B shares. On 14 June 2001 Wärtsilä announced that it would exercise its right to repay the convertible subordinated debentures based on the performance of the share price. However, the condition underlying repayment, a share price of EUR 24.03 on the trading day preceding repayment, 13 July 2001, was not fulfilled and the repayment did not therefore take place.

Gearing



Please refer to the calculation of financial ratios on page 69.

Solvency ratio



Altogether 1,479,017 Series A shares and 3,714,885 Series B shares, i.e. 5,193,902 shares in all, were converted during 2001 based on these capital notes. Altogether 1,487,761 A shares and 3,728,973 B shares had been converted by 31 December 2001, representing EUR 89.7 million of the loan principal.

A total of 57,600 Wärtsilä Series B shares were subscribed during 2001 based on the 1996 warrants.

Following the decision of the AGM on 20 March 2001, a total of 1,500,000 warrants were issued to key personnel in the Wärtsilä Group, entitling them to subscribe for the same number of Wärtsilä B shares. The share subscription period begins on 1 April 2003 and ends on 31 March 2007.

Conversions and subscriptions during 2001 raised Wärtsilä's share capital by altogether EUR 18,380,257. The number of A shares rose by 1,479,017 and the number of B shares by 3,772,485, making a total of 5,251,502 shares and 18,562,655 votes.

THE ANNUAL GENERAL MEETING

The Annual General Meeting, held on 20 March 2001, decided to distribute a normal dividend of EUR 0.65 per share and an extra dividend of EUR 2.00 per share. The terms of the convertible subordinated debentures and bond warrants were adjusted by the amount of extra dividend. The composition of the company's Board of Directors remained unchanged. Robert G. Ehrnrooth continued as the Chairman and Vesa Vainio as the Deputy Chairman.

PURCHASE OF OWN SHARES

The Annual General Meeting on 20 March 2001 authorized the Board for one year to repurchase the company's own shares in public trading on the Helsinki Exchanges at the prevailing price, disapplying shareholders' pre-emptive subscription rights. At most 5% of all the shares and votes may be repurchased. This authorization also includes the right to dispose of the company's shares repurchased in this manner at a price at least equal to the share price prevailing on the Helsinki Exchanges at the time of surrender, disapplying shareholders' rights. Following the Meeting the Board decided to repurchase the company's shares but so far no shares have been purchased.

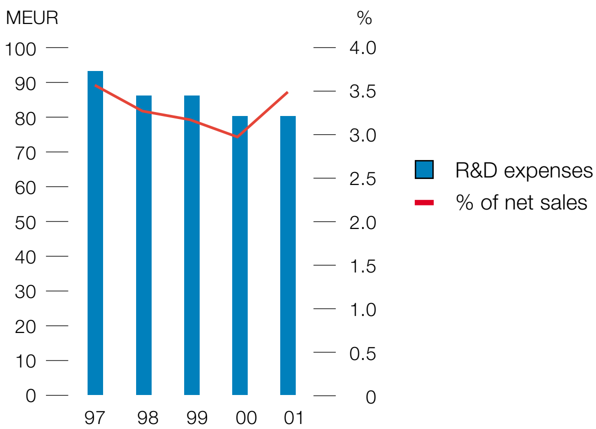
BOARD'S PROPOSALS TO THE ANNUAL GENERAL MEETING 2002

The Board proposes to the Annual General Meeting on 12 March 2002 that a dividend of EUR 0.50 per share and an extra dividend of EUR 3.50 per share be distributed on the financial year ended 31 December 2001.

With respect to the extra dividend the Board proposes that the conversion ratio of the 1994 convertible subordinated debentures and the subscription price of the Wärtsilä shares subscribable under the warrants attached to the 1996 bond with warrants be changed corresponding to the amount of the extra dividend.

Furthermore, the Board proposes that the AGM authorize the Board for one year to repurchase the company's own shares in public trading on the Helsinki Exchanges at the prevailing price, disapplying shareholders' pre-emptive subscription rights. At most 770,721 A shares and at most 2,201,971 B shares may be repurchased, representing at most 5% of all the shares and votes. This authorization also includes the right to dispose of the company's shares repurchased in this manner at a price at least equal to the share price prevailing on the

R&D expenses



Interest-bearing loan capital

MEUR	2001	2000
Long-term liabilities	148.9	245.7
Current liabilities	19.3	239.3
Preferred capital notes	28.1	117.2
Loan receivables	-68.3	-86.6
Cash and bank balances	-184.6	-118.9
Net	-56.5	396.7

Helsinki Exchanges at the time of surrender, disapplying shareholders' rights. At the same time the Board proposes that the unexercised authorization granted by the AGM on 20 March 2001 to repurchase and dispose of the company's own shares be revoked.

The Board also proposes that warrants be issued to key personnel in Wärtsilä Group. The Board proposes that altogether 800,000 warrants be issued allowing subscription of the same number of Wärtsilä Corporation B shares. The shares subscribable under these warrants will represent 1.3% of the share capital and 0.4% of the votes. Issuing of the warrants will be contingent upon the company reaching the minimum profitability targets set by the Board for the financial year 2003.

The purpose of the share option programme is to encourage key employees to work on a long-term basis in order to raise shareholder value and to increase their commitment to the company.

PROSPECTS FOR 2002

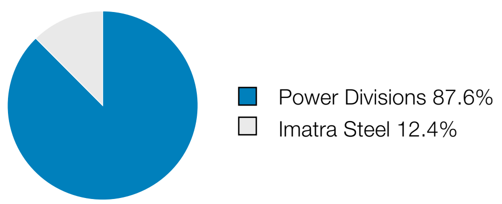
For Marine, the year 2002 is founded on a strong order book. The John Crane-Lips acquisition offers good potential for developing the company's The Ship Power Supplier concept and expanding it to include the naval and offshore sectors. Demand will continue to be brisk for environmentally sound solutions. General market uncertainty makes it difficult to estimate the order intake.

Demand for power plants is expected to remain positive in Latin America during the year. In Europe there is continued potential for gas- and biofuel-fired power plants. Investment activity is low in Asia, Africa and the Middle East. Demand in individual markets could substantially affect development during the year. Wärtsilä will develop its biofuel solutions and will seek growth through, among other things, synergies with its conventional power plant business during the year.

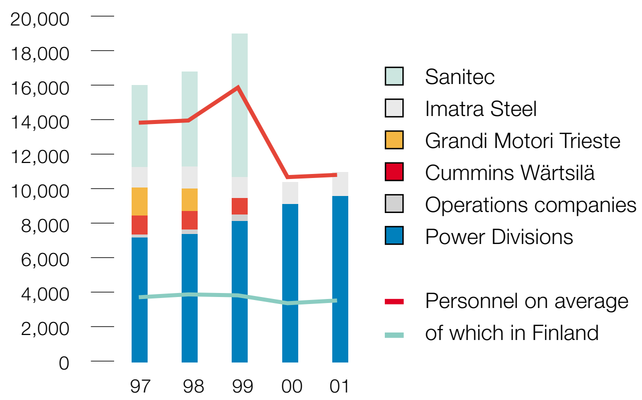
The total order book for Wärtsilä's Power Divisions is at a satisfactory level. The order book for Marine is good but for Power Plants only satisfactory. Organically the net sales is expected to increase. Power Divisions' operational profitability is expected to remain at the same level as in 2001. The benefits of the restructuring measures completed in 2001 and under way this year will be seen in performance during 2003. John Crane-Lips will add roughly EUR 235 million to Marine's annual net sales. The acquisition will increase the Group's operating profit and it will be earnings neutral.

For Imatra Steel, the year 2002 has begun under the shadow of uncertain market prospects. The decline in truck production is expected to continue and car production in Europe is expected to begin shrinking. A reduction in consumption of special engineering steels is forecast. Imatra Steel is expected to report an increase in net sales, following growth in its forging operations, and unchanged profits in 2002.

Personnel by division, end of 2001



Personnel by division



Income statement

MEUR	Note	2001	%	2000	%
Net sales	1,2	2,358.7	100.0	2,706.8	100.0
Change in inventories of					
finished goods & work in progress		84.7		–30.5	
Production for own use		1.6		3.1	
Other operating income	3	571.9		264.1	
Materials and services					
Materials and consumables					
Purchases during the financial year		–1,138.4		–1,068.1	
Change in inventories		20.9		–19.2	
External services		–397.3		–536.8	
		–1,514.8		–1,624.1	
Personnel expenses	4	–490.0		–554.4	
Depreciation and writedowns	5	–126.0		–103.1	
Other operating expenses		–362.4		–306.8	
Share of profits/losses in associated companies		0.1		12.0	
Operating profit		523.9	22.2	367.1	13.6
Financial income and expenses	6				
Income from financial assets		20.0		7.9	
Other interest income and financial income		26.0		32.3	
Exchange gains and losses		–9.2		–10.5	
Interest expenses and other financial expenses		–51.9		–60.7	
		–15.2	–0.6	–31.0	–1.1
Profit before extraordinary items		508.7	21.6	336.1	12.4
Extraordinary items	7				
Extraordinary expenses		–6.0		–20.4	
Profit before taxes		502.7		315.7	
Income taxes	8	–194.7		–96.4	
Minority interests		–2.2		–6.1	
Profit for the financial year		305.7	13.0	213.2	7.9

Balance sheet

ASSETS MEUR	Note	31 Dec. 2001	%	31 Dec. 2000	%
Fixed assets	9				
Intangible assets					
Intangible rights		7.6		6.2	
Goodwill on consolidation		119.5		119.6	
Other long-term expenditure		23.9		26.9	
		151.0	6.3	152.7	6.2
Tangible assets					
Land and water		42.7		44.1	
Buildings and structures		165.4		162.8	
Machinery and equipment		173.4		214.3	
Other tangible assets		15.8		16.8	
Advance payments and construction in progress		22.4		15.5	
		419.7	17.4	453.5	18.4
Financial assets					
Shares in associated companies		12.9		179.0	
Receivables from associated companies		0.1		2.0	
Other shares and securities		131.0		183.7	
Other receivables		6.7		7.7	
		150.8	6.3	372.4	15.1
Total fixed assets		721.4	30.0	978.6	39.7
Current assets					
Inventories					
Materials and consumables		256.1		232.3	
Work in progress		360.6		245.2	
Finished products/goods		33.0		48.0	
Advance payments		18.6		13.5	
		668.3	27.8	539.0	21.9
Long-term receivables	10				
Trade receivables		5.3		4.8	
Receivables from associated companies		5.7		6.1	
Loan receivables		16.1		17.3	
Deferred tax assets	11	50.1		30.7	
Other receivables		0.4		0.8	
Prepaid expenses and accrued income	13	0.2		2.8	
		77.9	3.2	62.5	2.5
Short-term receivables	12				
Trade receivables		578.4		541.0	
Receivables from associated companies		4.1		2.9	
Loan receivables		47.8		62.8	
Deferred tax assets	11	1.6		0.1	
Other receivables		32.9		23.3	
Prepaid expenses and accrued income	13	88.0		136.2	
		752.8	31.3	766.3	31.1
Financial assets					
Shares and securities		19.8	0.8		
Cash and bank balances		164.7	6.8	118.9	4.8
Total current assets		1,683.5	70.0	1,486.7	60.3
Assets		2,405.0	100.0	2,465.3	100.0

Balance sheet

Shareholders' equity and liabilities MEUR	Note	31 Dec. 2001	%	31 Dec. 2000	%
Shareholders' equity	14,15				
Share capital		208.1		189.7	
Share premium reserve		117.0		45.6	
Other reserves		60.5		54.8	
Retained earnings		352.3		287.6	
Profit for the financial year		305.7		213.2	
		1,043.6	43.4	790.8	32.1
Convertible subordinated debentures		28.1	1.2	117.2	4.8
Total shareholders' equity		1,071.6		908.0	
Minority interests		6.4	0.3	14.3	0.6
Provisions	16				
Provisions for pensions		37.4		42.6	
Provisions for taxation		1.5		2.1	
Other provisions		144.0		64.7	
		183.0	7.6	109.4	4.4
Liabilities	17				
Long-term					
Bonds		0.0		4.2	
Loans from credit institutions		99.9		183.7	
Pension loans		39.8		46.3	
Deferred tax liability	18	37.5		46.5	
Other long-term liabilities		6.3		13.8	
		183.6	7.6	294.5	11.9
Current	20				
Bonds		4.2		50.5	
Loans from credit institutions		8.9		179.7	
Pension loans		6.5		6.6	
Advances received		186.7		171.0	
Trade payables		351.6		337.7	
Liabilities to associated companies		1.6		1.8	
Other current liabilities		30.5		38.7	
Accrued expenses and deferred income	19	370.3		353.0	
		960.4	39.9	1,139.0	46.2
Total liabilities		1,144.0	47.6	1,433.5	58.1
Shareholders' equity and liabilities		2,405.0	100.0	2,465.3	100.0

Financial analysis

MEUR	2001	2000
Cash flow from operating activities		
Operating profit	523.9	367.1
Adjustments for		
Share of profits/losses in associated companies	–0.1	–12.0
Depreciation and writedowns	126.0	103.1
Gains and losses on sale of fixed assets	–555.7	–245.7
Other adjustments	0.6	–31.8
Cash flow before changes in working capital	94.5	180.7
Changes in working capital		
Current assets, non-interest-bearing, increase(-)/decrease(+)	9.0	35.6
Inventories, increase (-)/decrease(+)	–111.4	62.3
Current liabilities, non-interest-bearing, increase(+)/decrease(-)	50.8	–1.2
	–51.5	96.7
Cash flow from operating activities before financial items and taxes	43.0	277.4
Interest and other financial expenses	–45.8	–123.4
Dividends received from operating activities		8.4
Interest and other financial income from operating activities	59.2	66.2
Income taxes	–22.8	–19.8
Cash flow from operating activities before extraordinary items	33.6	208.8
Cash flow from extraordinary items	–6.0	
Cash flow from operating activities (A)	27.6	208.8
Cash flow from investing activities		
Investments in shares	–29.6	–151.7
Investments in other tangible and intangible assets	–60.8	–56.0
Proceeds from sale of shares[1]	772.1	259.2
Proceeds from sale of tangible and intangible assets	3.7	23.4
Loan receivables, increase(-), decrease(+)	0.8	–1.7
Interest income from investments	0.1	
Dividends received from investments	19.9	7.9
Taxes on capital gains from sale of shares	–201.4	–68.5
Cash flow from investing activities (B)	504.8	12.6
Cash flow after investing activities	532.5	221.4
Cash flow from financing activities		
Issue of share capital	0.7	
Loans receivable, increase (-)/decrease(+)	17.0	18.7
Current loans, increase (+)/decrease(-)	–332.8	–109.9
New long-term loans	0.6	0.3
Amortization and other changes in long-term loans	–1.8	–62.2
Paid dividends[2]	–144.8	–78.6
Other changes	-5.7	18.9
Cash flow from financing activities (C)	–466.8	–212.8
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	65.7	8.6
Liquid funds at beginning of period	118.9	110.3
Liquid funds at end of period	184.6	118.9

The impact of changes in exchange rates on consolidation has been eliminated.
[1] Change in 2000 includes deduction of Sanitec's liquid funds, EUR -30.7 million.
[2] Dividend 2000 EUR 27.1 million and extra dividend in Sanitec shares and related taxes.

Income statement

MEUR	Note	2001	2000
Net sales	1	6.4	7.1
Other operating income	3	714.6	254.2
Personnel expenses	4	–12.9	–3.8
Depreciation and writedowns	5	–4.3	–2.4
Other operating expenses		–29.3	–10.7
Operating profit		674.4	244.3
Financial income and expenses	6		
Income from financial assets		20.2	19.3
Other interest income and other financial income		55.8	22.6
Exchange gains and losses		0.7	1.0
Interest expenses and other financial expenses		–40.6	–27.0
		36.0	15.9
Profit before extraordinary items		710.5	260.2
Extraordinary items	7		
Extraordinary expenses		–6.0	–20.3
Group contribution		–34.0	10.5
		–40.0	–9.8
Profit before appropriations and taxes		670.5	250.4
Appropriations			
Change in depreciation difference		0.9	0.9
Profit before taxes		671.4	251.3
Income taxes	8	–196.1	–71.0
Profit for the financial period		475.4	180.3

Financial analysis

MEUR	2001	2000
Cash flow from operating activities		
Operating profit	674.5	244.4
Adjustments for		
Depreciation and writedowns	4.3	2.4
Gains and losses on sale of fixed assets	–701.0	–250.3
Other adjustments	0.3	
Cash flow before changes in working capital	–21.9	-3.5
Changes in working capital		
Current assets, non-interest-bearing, increase(-)/decrease(+)	–30.4	1.6
Current liabilities, non-interest-bearing, increase(+)/decrease(-)	–26.7	–35.3
	–57.0	–33.7
Cash flow from operating activities before financial items and taxes	–78.9	–37.2
Interest and other financial expenses	–40.6	–47.7
Received dividends from operating activities	0.3	11.7
Interest and other financial income from operating activities	96.1	44.2
Income taxes	5.3	–0.5
Cash flow from operating activities before extraordinary items	–17.9	–29.5
Cash flow from extraordinary items	–6.0	
Cash flow from operating activities (A)	–23.9	–29.5
Cash flow from investing activities		
Investments in shares	–0.7	–137.6
Investments in other tangible and intangible assets	–18.3	–0.9
Proceeds from sale of shares	766.1	289.2
Proceeds from sale of tangible and intangible assets	5.1	15.1
Loan receivables, increase(-), decrease(+)	12.5	2.8
Interest income from investments	0.6	
Dividends received from investments	19.4	7.6
Taxes on gain from share sale	–201.4	–68.5
Cash flow from investing activities (B)	583.3	107.7
Cash flow after investing activities	559.4	78.2
Cash flow from financing activities		
Issue of share capital	0.7	
Loans receivable, increase (-)/decrease(+)	–460.6	62.4
Current loans increase (+)/decrease(-)	59.8	1.3
Amortization and other changes in long-term loans		–7.3
Group contribution received	10.6	
Dividends paid[1]	–143.6	–78.0
Other changes	–2.1	
Cash flow from financing activities (C)	–535.2	–21.6
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	24.2	56.6
Liquid funds at beginning of period	91.0	34.4
Liquid funds at end of period	115.2	91.0

[1] Dividend 2000 EUR 27.1 million and extra dividend in Sanitec shares and related taxes.

Balance sheet

ASSETS	MEUR Note	31 Dec. 2001	31 Dec. 2000
Fixed assets	9		
Intangible assets			
Intangible rights		0.7	0.7
Other long-term expenditure		7.8	5.2
		8.5	5.9
Tangible assets			
Land and water		19.5	20.5
Buildings and structures		7.8	8.6
Machinery and equipment		3.8	0.4
Other tangible assets		0.5	0.4
Advance payments and construction in progress		9.0	0.7
		40.5	30.6
Financial assets			
Shares in Group companies		531.2	531.6
Long-term loans receivable from Group companies		5.6	18.1
Shares in associated companies		1.9	39.2
Receivables from associated companies		0.1	0.3
Other shares and securities		71.6	103.8
Other receivables		3.7	3.5
		614.0	696.5
Total fixed assets		663.0	733.0
Current assets			
Long-term receivables	10		
Trade receivables		5.3	
Loan receivables		3.6	4.0
		8.9	4.0
Short-term receivables	12		
Trade receivables		2.4	0.5
Receivables from Group companies		650.2	181.3
Loan receivables		0.6	0.1
Other receivables		5.0	
Prepaid expenses and accrued income	13	10.6	8.9
		668.9	190.8
Financial assets			
Shares and securities		16.0	
Cash and bank balances		99.2	91.1
Total current assets		792.9	285.9
Assets		1,456.0	1,018.9

Shareholders' equity and liabilities	MEUR Note	31 Dec. 2001	31 Dec. 2000
Shareholders' equity	14,15		
Share capital		208.1	189.7
Share premium reserve		117.0	45.6
Retained earnings		335.2	300.1
Profit for the financial year		475.4	180.3
		1,135.6	715.7
Convertible subordinated debentures		28.1	117.2
Total shareholders' equity		1,163.7	832.9
Accumulated appropriations			
Depreciation difference		4.6	5.5
		4.6	5.5
Provisions	16		
Provisions for pensions			3.4
Provisions for taxation		1.4	1.4
Other provisions		2.5	2.6
		4.0	7.4
Liabilities	17		
Long-term			
Bonds		0.0	4.2
Loans from credit institutions		2.7	84.5
Pension loans		10.6	12.6
		13.3	101.3
Current	20		
Bonds		4.2	50.5
Loans from credit institutions		1.8	0.2
Pension loans		2.0	2.0
Trade payables		2.4	0.3
Liabilities to Group companies		231.8	2.5
Liabilities to associated companies		0.2	0.7
Other current liabilities		1.5	1.1
Accrued expenses and deferred income	19	26.6	14.5
		270.4	71.8
Total liabilities		283.7	173.1
Shareholders' equity and liabilities		1,456.0	1,018.9

Accounting Principles

Wärtsilä Group's financial statements have been prepared in accordance with the laws and regulations in force in Finland and in compliance with the company's Group-wide accounting principles.

No changes have been made to the accounting principles since the previous year.

The financial statements are presented in euro. The preparation of the financial statements in conformity with applicable regulations and generally accepted accounting principles requires management to make estimates and assumptions that affect the valuation and allocation of the reported figures. Actual results may differ from such estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and the accounts of its directly or indirectly owned subsidiaries (over 50% of the voting rights) and associated companies. Acquired or established subsidiaries and associated companies are consolidated from the date of acquisition or establishment until the end of the period of ownership. Certain real estate and housing companies and the Group's reinsurance company are not consolidated since they have a negligible effect on the Group's result and distributable equity.

All intra-group transactions as well as distribution of profit, receivables and liabilities, and unrealized margins on intragroup transactions are eliminated in the consolidation. Minority interests are presented in the income statement as a separate item after taxes. The share of minority interests in shareholders' equity is also shown separately in the consolidated balance sheet.

Mutual shareholdings are eliminated using the purchase method. The goodwill in the subsidiaries is calculated on the basis of their acquisition cost by eliminating the Group's share of the equity of the acquired subsidiaries, including reserves less deferred tax liability. Of the difference between the cost of the acquisition and the equity of the subsidiaries at the date of acquisition, that amount by which the value of fixed assets can be considered to exceed the subsidiary's balance sheet value has been entered under fixed assets. The remainder of the difference is recorded as goodwill. Goodwill is amortized over the useful life of the asset, nevertheless over a period not exceeding twenty years. The depreciation periods are determined by the Group's strategic plans and long-term profit expectations owing to the nature of its business.

Investments in associated companies (voting rights between 20% and 50% and ownership more than 20%) are included in the consolidated accounts using the equity method. The consolidated income statement includes the Group's share of results in associated companies taking into account goodwill write-offs and dividends received. The Group's share of post-acquisition increase of the net assets of these companies is added to the acquisition cost and to shareholders' equity. The book values of the shares of associated companies are listed in the notes to the financial statements as recorded by the shareholding subsidiaries. Investments in other companies are listed in the balance sheet at acquisition cost and the book values of these shares are written down, if required, to correspond with their market value.

FOREIGN SUBSIDIARIES

In the consolidated accounts all items in the income statements of foreign subsidiaries are translated into euros at the average exchange rates for the financial year. The balance sheet items of subsidiaries are translated into euros at the rates of exchange ruling on the balance sheet date. Translation differences arising from the application of the purchase method are treated as an adjustment affecting consolidated shareholders' equity; the translation difference applying to shareholders' equity at the time of acquisition is allocated to distributable and non-distributable equity. Those differences which arise from the translation of income statement items and balance sheet items at different rates are recorded under consolidated distributable equity.

The Group applies the equity hedging method to hedge most of the shareholders' equities of subsidiaries outside the euro area using currency loans or forward contracts, to reduce the effects of exchange rate fluctuations on the Group's shareholders' equity. Exchange gains and losses resulting from the hedging transactions are netted against the translation differences recorded in the shareholders' equity of the consolidated balance sheet.

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 at their net values under financial income and expenses.

REVENUE RECOGNITION

Net sales is calculated by deducting items including indirect sales taxes and discounts from gross sales revenues. Revenue is recognized at the date of delivery except for large, long-term projects, which are recognized using the percentage-of-completion method.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed in the financial period in which they occurred, with the exception of investments in buildings, machinery and equipment, which are capitalized and depreciated. In the Netherlands, where R&D is supported by conditional state development credits, R&D costs are charged to earnings after deducting the amount of these credits. Repayments are entered as expenses in the income statement. The principal of such development credits on the balance sheet date is shown under contingent liabilities in the notes to the financial statements.

PENSION ARRANGEMENTS

Statutory and supplementary pension obligations in Finland are covered through payments to pension insurance institutions and recorded as determined by periodical actuarial calculations prepared by those institutions. In the Group companies outside Finland, the pension obligations are arranged and pension liabilities recorded in accordance with local legislation and practice. Changes in uncovered pension obligations are entered in the income statement and the pension liability is included in provisions in the balance sheet.

WARRANTY COSTS

The estimated warranty costs of goods delivered to customers are included under current liabilities in the balance sheet. Actual warranty costs, including changes in warranty liability, are charged against earnings for the period.

VALUATION OF INVENTORIES

Inventories are valued at their direct acquisition cost, which includes direct manufacturing costs and an appropriate proportion of indirect production overheads and acquisition costs. The upper value used in the valuation of inventories is their net realizable value.

FIXED ASSETS AND DEPRECIATION

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land and buildings also include revaluations; these are stated in the notes to the financial statements.

The following indicative useful lives are used:

Other long-term expenditure	3-10 years
Buildings	10-40 years
Machinery and equipment	5-20 years.

LEASING

Operating leasing payments are treated as rentals. Significant financial leasing items are capitalized as fixed assets.

EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses include items which fall outside the ordinary activities of the company.

APPROPRIATIONS

Appropriations comprise voluntary provisions and the depreciation difference. In the consolidated accounts accumulated appropriations are divided into tax liability and shareholders' equity. The change in appropriations, net of tax liability, is included in the result for the year. The amount of appropriations entered under shareholders' equity is not regarded as distributable funds.

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. These include uncovered pension liabilities, forecast losses on projects in progress and restructuring expenses. Changes to provisions are included in the income statement.

INCOME TAXES

Income taxes in the income statement include taxes of subsidiaries for the financial period, calculated in accordance with local regulations, as well as adjustments to prior year taxes and deferred taxes. Taxes allocated to extraordinary items are presented in the notes to the financial statements.

Deferred tax liabilities or assets are calculated as the temporary differences between the tax and financial periods using the tax rate for subsequent years confirmed on the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and the probable realizable amount of deferred tax assets.

CONVERTIBLE CAPITAL NOTES

Wärtsilä Corporation has made two convertible capital notes issues, which are treated as equivalent to shareholders' equity. The terms are described 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 financial statements

MEUR 1.Net sales by country	2001	%	Group 2000	%	2001	Power Divisions %	2000	%
Italy	182.7	7.7	230.4	8.5	176.1	8.1	204.1	8.9
France	127.6	5.4	165.8	6.1	113.6	5.2	112.8	4.9
Norway	112.0	4.7	102.3	3.8	106.0	4.9	85.9	3.8
Germany	94.6	4.0	163.0	6.0	68.9	3.2	96.4	4.2
Great Britain	86.0	3.6	95.6	3.5	58.8	2.7	64.5	2.8
Finland	83.1	3.5	93.8	3.5	54.2	2.5	53.4	2.3
The Netherlands	72.7	3.1	71.1	2.6	68.9	3.2	67.9	3.0
Spain	72.0	3.1	70.3	2.6	70.5	3.2	68.2	3.0
Sweden	69.6	2.9	101.6	3.8	10.1	0.5	21.7	0.9
Denmark	34.2	1.4	44.0	1.6	32.3	1.5	33.6	1.5
Greece	31.0	1.3	41.6	1.5	31.0	1.4	40.6	1.8
Other European countries	103.1	4.4	126.9	4.7	96.3	4.4	96.5	4.2
Europe	1,068.5	45.3	1,306.4	48.3	886.7	40.8	945.6	41.3
Middle East	147.9	6.3	122.5	4.5	147.8	6.8	121.4	5.3
India	136.6	5.8	193.8	7.2	136.6	6.3	193.8	8.5
Japan	80.3	3.4	51.9	1.9	80.3	3.7	51.0	2.2
Korea	76.1	3.2	93.6	3.5	76.1	3.5	93.0	4.1
China and Hong Kong	61.7	2.6	112.4	4.2	61.7	2.8	111.9	4.9
Singapore	34.6	1.5	16.3	0.6	34.4	1.6	15.3	0.7
Taiwan	29.9	1.3	31.9	1.2	29.9	1.4	31.4	1.4
Indonesia	26.8	1.1	24.5	0.9	26.8	1.2	24.5	1.1
Other Asian countries	84.4	3.6	54.7	2.0	84.3	3.9	53.3	2.3
Asia	678.3	28.8	701.6	25.9	678.1	31.2	695.6	30.4
USA and Canada	306.8	13.0	128.7	4.8	302.8	13.9	117.7	5.1
Central America	94.2	4.0	189.6	7.0	94.2	4.3	189.6	8.3
South America	78.6	3.3	188.2	7.0	78.6	3.6	188.2	8.2
The Americas	479.6	20.3	506.5	18.7	475.6	21.9	495.5	21.7
African countries	109.8	4.7	118.8	4.4	109.8	5.1	118.6	5.2
Other countries	22.4	1.0	73.3	2.7	22.0	1.0	32.4	1.4
Total	2,358.7	100.0	2,706.8	100.0	2,172.1	100.0	2,287.8	100.0

	2001	Group 2000	2001	Parent company 2000
2. Projects for which percentage-of-completion method is applied				
Recognized accumulated income				
Uncompleted projects	952.6	732.8		
Unrecognized part of income	53.5	114.8		
Recognized accumulated contribution	68.9	52.0		
3. Other operating income				
Rental income	1.1	1.0	0.1	0.2
Profit on sales of fixed assets	555.7	248.8	701.0	253.0
Other operating income	15.1	14.3	13.5	1.0
Total	571.9	264.1	714.6	254.2
4. Personnel expenses				
Wages and salaries	382.6	429.5	11.9	2.5
Pension costs	21.2	20.7	0.3	1.0
Other compulsory personnel costs	86.2	104.2	0.7	0.3
Total	490.0	554.4	12.9	3.8

Pension costs contain only those of Finnish companies.
Pension costs of foreign companies are included in other compulsory personnel costs.

	2001	Group 2000	2001	Parent company 2000
Salaries and emoluments to senior management				
Presidents and members of the Board of Directors	13.4	12.4	0.8	0.6

The CEO and the presidents of some Group companies have the right to retire at the age of 60 years.
The company's Board of Directors decides the remunerations of the President and his immediate subordinates.

	Group		Parent company	
	2001	**2000**	**2001**	**2000**
Personnel on average				
Power Divisions	9,553	9,404	149	
Imatra Steel	1,284	1,281		
Other Operations	9	30	9	30
Ongoing operations	10,846	10,715	158	30
Sanitec [1]		2,085		
Total	10,846	12,800	158	30

[1] Sanitec included only in January-March 2000

5. Depreciation and write downs

Depreciation according to plan

	Group 2001	Group 2000	Parent company 2001	Parent company 2000
Intangible assets	3.2	3.3		
Goodwill on consolidation	11.3	13.7		
Other long-term expenditure	5.5	5.7	2.7	1.4
Buildings and structures	13.4	15.3	0.6	0.8
Machinery and equipment	49.1	58.8	0.9	0.2
Other tangible assets	5.7	6.1	0.0	
Construction in progress	0.3	0.2		
Total depreciation according to plan	88.5	103.1	4.3	2.4
Total book depreciation			3.3	1.7
Depreciation difference			0.9	0.7
Adjustment of depreciation difference on sold fixed assets				0.2
Writedowns of fixed assets	37.5			
Depreciation difference on 1 January			5.5	6.4
Change in the depreciation difference			–0.9	–0.9
Depreciation difference on 31 December			4.6	5.5

6. Financial income and expenses

Income from financial assets

	Group 2001	Group 2000	Parent company 2001	Parent company 2000
Dividend income				
from Group companies			0.3	
from associated companies				11.7
from other companies	19.9	7.8	19.4	7.6
Total	19.9	7.8	19.7	19.2
Interest income from financial assets				
from Group companies			0.6	
from other companies	0.0	0.1		0.1
Income from financial assets total	20.0	7.9	20.2	19.3
Other interest income				
from Group companies			41.2	15.1
from other companies	22.0	21.3	13.1	1.8
Total	22.0	21.3	54.3	16.9
Other financial income				
from Group companies			0.2	
from other companies	4.1	11.0	1.3	5.7
Total	4.1	11.0	1.5	5.7
Exchange gains and losses	–9.2	–10.5	0.7	1.0
Writedowns of financial assets	–6.1	–2.1		
Interest expenses				
to Group companies			–18.6	–0.2
to other companies	–31.6	–49.5	–19.5	–22.1
Total	–31.6	–49.5	–38.2	–22.3
Other financial expenses				
to other companies	–14.2	–9.2	–2.4	–4.7
Financial income and expenses, total	–15.2	–31.0	36.0	15.9

	Group 2001	Group 2000	Parent Company 2001	Parent Company 2000
7. Extraordinary income and expenses				
Share writedowns		–15.5		–15.5
Writedown of loan receivables		–4.9		–4.9
One-time pension and llifetime annuity payments	–6.0		–6.0	
Group contributions paid/received			–34.0	10.6
Total	–6.0	–20.4	–40.0	–9.8
8. Income taxes				
Income taxes on operations				
for the financial year	–219.5	–93.3	–192.1	–71.3
for prior years	–4.7	–3.4	–3.9	0.2
Change in deferred tax	29.5	0.2		
Total	–194.7	–96.4	–196.1	–71.1
Income taxes on extraordinary items	1.7	5.9	11.6	2.8

9. Fixed assets

	Acquisition cost 1 Jan.	Increases	Decreases	Accum. depreciation 1 Jan.	Accum. depreciation in decreases	Depreciation in period	Writedowns and their reversals	Residual value 31 Dec.
Group								
Intangible assets								
Intangible rights	13.8	2.3		–5.2		–3.2		7.6
Goodwill on consolidation	155.9	11.0		–36.1		–11.3		119.5
Other long-term expenditure	72.6	2.7		–45.9		–5.5		23.9
Group 2001	242.3	15.9		–87.3		–19.9		151.0
Group 2000	235.6	9.1	–1.1	–68.6	0.4	–22.7		152.7
Tangible assets								
Land and water [1]	45.4	2.9	–5.5	–0.1				42.7
Buildings and structures	268.3	12.3	1.2	–101.6	1.0	–13.4		165.4
Machinery and equipment	624.4	35.4	–14.0	–399.8	14.0	–49.2	–37.5	173.4
Construction in progress	3.8	20.9	2.0	–0.3	0.0	–0.3		22.1
Other tangible assets	43.4	3.9	–1.3	–25.3	0.7	–5.7		15.8
Advances paid		0.3						0.3
Group 2001	985.3	75.8	–17.6	–527.0	15.7	–68.6	–37.5	419.7
Group 2000	1,007.7	47.9	–46.5	–507.0	31.9	–80.4		453.6
Financial assets								
Shares in associated companies	180.4	0.6	–165.7	–0.8				12.9
Receivables from associated companies	2.0		–1.9					0.1
Shares in other companies	184.9	2.0	–55.1	–0.2			–0.6	131.0
Receivables from other companies	7.7		–1.0					6.7
Group 2001	375.0	2.7	–223.6	–1.0			–0.6	150.8
Group 2000	305.7	153.3	–83.2	–1.5			–1.9	372.4
Parent company								
Intangible assets								
Intangible rights	1.0		0.0	–0.3	0.0	0.0		0.7
Other long-term expenditure	18.0	5.3	0.0	–12.7	0.0	–2.8		7.8
Parent company 2001	18.9	5.3	0.0	–13.0	0.0	–2.8		8.5
Parent company 2000	18.9			–11.6		–1.4		5.9
Tangible assets								
Land and water[1]	20.5	1.2	–2.2					19.5
Buildings and structures	27.4		–1.2	–18.8	1.0	–0.6		7.8
Machinery and equipment	6.6	4.4	–0.2	-6.3	0.1	–0.9		3.7
Construction in progress	0.7	8.3						9.0
Other tangible asstes	1.4		0.0	–1.0		0.0		0.5
Parent company 2001	56.7	13.9	–3.6	–26.0	1.1	–1.6		40.5
Parent company 2000	64.2	1.0	–7.4	–26.1		–1.0		30.7

[1]Includes revaluations totalling EUR 11.6 million (13.2) at the end of the financial year.

9. Fixed assets

	Acquisition cost 1 Jan.	Increases	Decreases	Accum. depreciation 1 Jan.	Accum. depreciation in decreases	Depreciation in period	Writedowns and their reversals	Residual value 31 Dec.
Financial assets								
Shares in Group companies	531.6	0.1	–0.4					531.2
Receivables from Group companies	18.1		–12.6					5.6
Shares in associated companies	39.2	0.6	–38.0					1.9
Receivables from associated companies	0.3		–0.2					0.1
Shares in other companies	103.8		–32.2					71.6
Receivables from other companies	3.4	0.4	–0.2					3.7
Parent company 2001	696.4	1.1	–83.5					614.0
Parent company 2000	624.8	138.0	–64.8	–1.5				696.5

	Group 2001	Group 2000	Parent Company 2001	Parent Company 2000
10. Specification of long-term receivables				
Receivables from Group companies				
Long-term investments			5.6	18.2
Receivables from associated companies				
Long-term investments	0.1	2.3	0.1	0.3
Loan receivables	5.7	6.1		
Total	5.9	8.4	0.1	0.3
11. Specification of deferred tax assets				
Tax loss carry forward	36.0	14.9		
Temporary differences	4.4	5.9		
Group eliminations	11.4	9.9		
Total	51.8	30.7		
12. Specification of short-term receivables				
Receivables from Group companies				
Trade receivables			6.5	0.2
Loan receivables			633.6	180.0
Prepaid expenses and accrued income			10.1	1.0
Total			650.2	181.2
Receivables from associated companies				
Trade receivables	3.5	2.2		0.0
Loan receivables	0.6	0.6		
Prepaid expenses and accrued income	0.0	0.1		
Total	4.1	2.9		0.0
13. Main items in prepaid expenses and accrued income				
Interest	1.8	2.3	1.6	
Other financial items	2.8	40.6	1.3	
Income and other taxes	26.5	17.5	5.6	3.7
Other items	57.0	78.6	2.1	5.2
Total	88.2	139.0	10.6	8.9

	Group 2001	Group 2000	Parent Company 2001	Parent Company 2000
14. Shareholders´ equity				
Share capital				
Share capital on 1 January				
Series A	48.8	48.8	48.8	48.8
Series B	140.9	140.9	140.9	140.9
Total	189.7	189.7	189.7	189.7
Subscription based on warrants	0.2		0.2	
Conversion of debentures	18.2		18.2	
Total	18.4		18.4	
Share capital on 31 December				
Series A	54.0	48.8	54.0	48.8
Series B	154.1	140.9	154.1	140.9
Total	208.1	189.7	208.1	189.7
Share premium reserve				
Share premium reserve on 1 January	45.6	45.5	45.6	45.5
Issue premium	71.4	0.0	71.4	0.0
Share premium reserve on 31 December	117.0	45.6	117.0	45.6
Other reserves				
Other reserves on 1 January	54.8	74.4		
Transfers from retained earnings	0.3	1.3		
Extra dividend distribution in Sanitec shares		–21.2		
Translation difference and other changes	5.4	0.3		
Other reserves on 31 December	60.5	54.8		
Retained earnings				
Retained earnings on 1 January	500.7	399.6	480.5	381.8
Transfer to other reserves	–0.3	–1.3		
Ordinary dividend distribution	-35.2	–27.1	–35.2	–27.1
Extra dividend distribution in Sanitec shares		–35.9		–14.2
Extra dividend distribution in cash	–108.4	–1.2	–108.4	–1.2
Taxes on distributed Sanitec shares		-35.5		–35.5
Reversal of revaluation	-1.6	–3.7	–1.6	–3.7
Change in deferred tax liability on revaluation	0.5	0.9		
Net change in translation differences	-3.3	–8.3		
Profit for the year	305.7	213.2	475.4	180.4
Retained earnings on 31 December	658.0	500.7	810.6	480.5
Distributable equity				
Retained earnings on 31 December	658.0	500.7	810.6	480.5
Voluntary provisions and depreciation difference	–40.2	–45.5		
Deferred tax liability	12.1	13.7		
Non-distributable share issue gains	–8.3	–37.8		
Distributable equity	621.5	431.1	810.6	480.5
15. Convertible subordinated debentures	28.1	117.2	28.1	117.2

Main terms:

* Two issues of convertible subordinated debentures, each carrying principal of EUR 58.9 million (FIM 350 million) at the date of issue.
* Should Wärtsilä Corporation be put into liquidation or become bankrupt, the principal of the loan shall rank junior to Wärtsilä Corporation's other obligations (and equal to the Company's other equivalent loans raised to strengthen shareholders' equity).
* The loans are dated on 24 March 1994. The notes are not collaterilized and are perpetual.
* Wärtsilä Corporation is entitled to pay back the principal with interest at any time from 2 May 2004 assuming that the Company and the Group still have distributable equity after making the payment. Furthermore, Wärtsilä Corporation is entitled to pay back the principal on the same terms if the share price exceeds the conversion price by at least 40 percent, in which case note holders are entitled to convert their notes to Company shares before payback.
* The notes shall pay fixed interest of 7.8 percent until 2 May 2004, and thereafter a rate of interest to be fixed annually notes to Company shares before payback which shall exceed the 12-month Euribor rate by five percentage points.
* Interest may be paid annually only to the extent that the payments do not exceed the distributable equity shown in the most recent approved financial accounts. Any interest left unpaid shall remain the liability of the Company. Interest is paid before dividend.
* Each bond of nominal value EUR 1,681.88 (FIM 10,000) convertible into Series A shares may be exchanged for 49 Series A shares and 49 Series B shares. The aggregate conversion price of one Series A share and one Series B share is EUR 34.32 (FIM 204,46).
* Each bond of nominal value EUR 1,681.88 (FIM 10,000) convertible into Series B shares may be exchanged for 98 Series B shares. The aggregate conversion price of two Series B shares is EUR 34.32 EUR (204.06 FIM)
* The conversion right commenced on 1 June 1994 and the annual period of conversion shall extend from January 2 to November 30 inclusive. The conversion right will end 14 days prior to the maturity of the notes.
* By 31 December 2001 altogether 1,479,017 Series A shares and 3,714,885 Series B shares had been converted. This represents a loan capital of EUR 89,137,919 (FIM 529,990,000) and by this amount the principal has decreased.

	Group 2001	Group 2000	Parent Company 2001	Parent Company 2000
16. Provisions				
Provisions for pension	37.4	42.6		3.4
Provisions for taxation	1.5	2.1	1.4	1.4
Other provisions				
Foreseeable losses	25.3	18.0		
Litigation	14.3	11.1		
Other	104.4	35.6	2.6	2.6
Other provisions total	144.0	64.7	2.6	2.6
Provisions total	183.0	109.4	4.0	7.4
Change in provisions	73.6	–64.0	–3.4	–0.2
17. Liabilities				
Long-term				
Non-interest-bearing	38.8	48.8		
Interest-bearing	144.7	245.7	13.3	101.0
Total	183.5	294.5	13.3	101.0
Current				
Non-interest-bearing	936.9	899.7	69.3	17.0
Interest-bearing	23.5	239.3	201.1	54.7
Total	960.4	1,139.0	270.4	71.7
Bond with warrants 1996	0.0	0.0	0.0	0.0

Main terms:
* Principal EUR 30,274 (FIM 180,000).
* Each EUR 168.19 (FIM 1,000) bond carries a warrant to subscribe for 1,200 Series B shares, nominal value EUR 3.50, for a subscription price of EUR 11.49 (FIM 68.32) per share.
* The loan is dated 2 May 1996. The conversion period commenced on 1 September 1996 and will end on 2 May 2003, on which date the principal will also be repaid.
* Annual interest on bonds is equivalent to the Bank of Finland's base rate minus 1 percentage point.
* 34 executives have subscribed for the loan.

Long-term debt with maturity profile

	Bonds	Bank loans	Pension loans	Other loans	Total loans	Maturing credit facilities
2002	4.2	7.5	6.5	0.6	18.8	117.6
2003		52.9	6.5	0.4	59.8	30.0
2004		3.0	5.9	1.7	10.7	188.2
2005		32.6	5.3	0.0	37.9	60.0
2006		2.1	5.3	0.7	8.0	20.0
2007-		9.3	16.8	2.2	28.3	
Total 31 December 2001	4.2	107.4	46.4	5.6	163.5	415.8
Total 31 December 2000	54.7	189.6	52.9	11.6	308.8	406.0

Division of long-term loans by currency	**31 Dec. 2001**	**31 Dec. 2000**
EUR	94%	82%
USD		15%
SEK	4%	2%
Other currencies	2%	1%

18. Specification of deferred tax liabilities

Untaxed reserves	21.0	18.4
Revaluation	5.6	6.4
Temporary differences	1.4	6.0
Group eliminations	9.5	15.7
Total	37.5	46.5

	2001	Group 2000	2001	Parent Company 2000
19. Main items in accrued expenses and deferred income				
Project costs	84.6	99.7		
Warranty costs	94.7	70.8		
Income and other taxes	25.1	23.0	2.4	6.2
Personnel expenses	70.6	62.0	4.8	0.6
Interest and other financial items	22.7	21.2	16.0	7.2
Other	72.6	76.3	3.4	0.5
Total	370.3	353.0	26.6	14.5
20. Specification of current liabilities				
Liabilities to Group companies				
Trade payables			1.3	0.5
Other current liabilities			230.4	2.0
Total			231.8	2.5
Liabilities to associated companies				
Trade payables	1.3	1.1		
Other current liabilities	0.2	0.7	0.2	0.7
Accrued expenses and deferred income	0.1	0.1		
Total	1.6	1.8	0.2	0.7

21. Collateral, contingent liabilities and other commitments

Group		**2001**		**2000**
	Balance sheet debt	Collateral	Balance sheet debt	Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	9.9	19.8	12.7	24.3
Pension loans	28.9	35.8	41.8	47.8
Off-balance-sheet commitments		14.3		16.6
Total	38.8	69.9	54.5	88.7
Chattel mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	2.9	5.9	4.2	9.9
Off -balance-sheet items		35.3		21.4
Total	2.9	41.2	4.2	31.3
Parent company				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	4.6	6.6	14.9	17.0
Off-balance-sheet commitments		14.3		16.6
Total	4.6	20.9	14.9	33.6

	2001	Group 2000	2001	Parent company 2000
Guarantees and contingent liabilities				
On behalf of Group companies	403.8	500.3	138.0	309.0
On behalf of associated companies	1.1		1.1	
On behalf of others	2.1	2.1		
Nominal amounts of rents according to leasing contracts				
Payable within one year	8.7	1.0		
Payable after one year	33.2	44.7		
Total	41.9	45.7		

22. Inner circle loans and other commitments

No loans have been granted to senior management and the members of the Board of Directors.
No pledges or other commitments were given on behalf of senior management or shareholders.

23. Nominal values of derivative instruments on 31 December 2001

	Total amount	of which closed contracts
Interest rate swaps	160.0	160.0
Foreign exchange forward contracts	1,121.6	146.4
Total	1,281.6	306.4

If all the above instruments had been reversed (sold) at the market prices at the year end, the net effect would have been EUR -3.8 million.

Exchange rates	Closing rates		Average rates	
	31 Dec. 2001	31 Dec. 2000	2001	2000
USD	0.88130	0.93050	0.89565	0.92360
GBP	0.60850	0.62410	0.62187	0.60948
SEK	9.30120	8.83130	9.25570	8.44520
NOK	7.95150	8.23350	8.04891	8.11290
DKK	7.43650	7.46310	7.45216	7.45380
CHF	1.48290	1.52320	1.51039	1.55790
JPY	115.33000	106.92000	108.73417	99.47000
SGD	1.63060	1.61260	1.60339	1.58891
INR	42.51400	43.45400	42.14517	41.39633

Currency distribution 2001	Invoiced sales	Operating costs
EUR	41.2 %	61.6 %
USD	32.6 %	19.0 %
SEK	2.8 %	2.2 %
NOK	3.9 %	2.6 %
Other EU	4.8 %	4.2 %
Other	14.6 %	10.4 %
	100.0%	100.0%

The distribution of the Group´s sales and operating expenses by currency provides a view of the Group´s long-term currency sensitivity.

24. Shares and securities

Company, name and country		Share %	Votes %	currency	Book value '000 Wärtsilä Corp. direct ownership	Indirectly owned through a subsidiary
Subsidiaries						
Wärtsilä Technology Oy Ab	Finland	100.0	100.0	EUR	449,064	
Wärtsilä Finland Oy	Finland	100.0	100.0	EUR		100,912
Wärtsilä Operations Ltd Oy	Finland	100.0	100.0	EUR		84
Wärtsilä Nederland B.V.	The Netherlands	100.0	100.0	EUR		141,400
Wärtsilä Italia S.p.A.	Italy	100.0	100.0	EUR		83,447
Wärtsilä Danmark A/S	Denmark	100.0	100.0	EUR		9,631
Wärtsilä Sweden AB	Sweden	100.0	100.0	DKK		150,407
Ciserv AB	Sweden	100.0	100.0	SEK		41,318
Wärtsilä Norway A/S	Norway	100.0	100.0	EUR		10,079
Wärtsilä Ibérica S.A.	Spain	100.0	100.0	EUR		3,875
Wärtsilä Portugal Lda.	Portugal	100.0	100.0	EUR		222
Wärtsilä Deutschland GmbH	Germany	100.0	100.0	EUR		507
Wärtsilä France S.A.S.	France	100.0	100.0	EUR		20,000
Wärtsilä UK Ltd.	Great Britain	100.0	100.0	EUR		5,393
Wärtsilä Ireland Ltd.	Ireland	100.0	100.0	GBP		10
Wärtsilä Caspian Ltd	Azerbaijan	100.0	100.0	GBP		10
Wärtsilä Polska Sp.z.o.o.	Poland	100.0	100.0	EUR		547
Wärtsilä Greece S.A.	Greece	100.0	100.0	EUR		369
Wärtsilä-Enpa A.S.	Turkey	51.0	51.0	EUR		69
Wärtsilä North America, Inc.	USA	100.0	100.0	USD		80,000
Wärtsilä Development & Financial Services Inc.	USA	100.0	100.0	EUR		10,197
Wärtsilä Canada Inc.	Canada	100.0	100.0	USD		1,172
Wärtsilä de Mexico SA	Mexico	100.0	100.0	USD		4,405
Wärtsilä Caribbean, Inc.	Puerto Rico	100.0	100.0	USD		578
Wartsila Operations, Inc.	USA	100.0	100.0	USD		10
Wärtsilä Latin America Ltd.	Bermuda	100.0	100.0	EUR		5,800
Wärtsilä Chile Ltda.	Chile	100.0	100.0	USD		2,778
Wärtsilä del Ecuador S.A.	Ecuador	100.0	100.0	USD		1,991
Wärtsilä do Brasil Ltda.	Brazil	99.6	99.6	USD		3,306
Wärtsilä de Colombia S.A.	Colombia	99.7	99.7	USD		34
Wärtsilä del Peru S.A.	Peru	100.0	100.0	USD		1,307
Wärtsilä del Argentina S.A.	Argentina	100.0	100.0	USD		846
Wärtsilä Venezuela, C.A.	Venezuela	100.0	100.0	USD		71
Wärtsilä Bolivia S.A.	Bolivia	95.0	95.0	USD		0
Wärtsilä Development & Financial Services Oy	Finland	100.0	100.0	EUR		18,800
Wärtsilä Singapore Pte Ltd.	Singapore	100.0	100.0	EUR		3,151
Wärtsilä China Ltd.	Hong Kong	100.0	100.0	EUR		9,010
Wärtsilä Japan Co.Ltd.	Japan	86.4	86.4	EUR		1,589
Wärtsilä Korea Ltd.	South Korea	100.0	100.0	EUR		894
Wärtsilä Taiwan Ltd.	Taiwan	96.7	96.7	EUR		401
Wärtsilä Philippines Inc.	Philippines	100.0	100.0	EUR		645
PT. Wärtsilä Indonesia	Indonesia	100.0	100.0	EUR		10,289
Wärtsilä Australia Pty Ltd.	Australia	100.0	100.0	EUR		545
Wärtsilä India Ltd.	India	85.0	85.0	EUR		23,850
Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0	100.0	EUR		3,713
Wärtsilä NSD Bangladesh Ltd.	Bangladesh	100.0	100.0	EUR		102
Wärtsilä Diesel Saudi Arabia Ltd.	Saudi Arabia	60.0	60.0	EUR		860
Wärtsilä Gulf FZE	United Arab Emirates	100.0	100.0	EUR		213
Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0	100.0	EUR		316
Wärtsilä Eastern Africa Ltd	Kenya	100.0	100.0	EUR		15
Wärtsilä Switzerland Ltd.	Switzerland	100.0	100.0	EUR		57,273
Wärtsilä Energoservice Ltd.	Russia	100.0	100.0	EUR		858
Sermet Oy	Finland	100.0	100.0	EUR		5,981
Imatra Steel Oy Ab	Finland	100.0	100.0	EUR	46,612	
Imatra Kilsta AB	Sweden	100.0	100.0	EUR		5,885
Imatra Stampings Ltd.	Great Britain	100.0	100.0	SEK		46,080
Imatra Stahl GmbH	Germany	100.0	100.0	EUR		45
Imatra Steel Ltd.	Great Britain	100.0	100.0	EUR		65
Imatra Steel S.A.R.L.	France	100.0	100.0	EUR		34

24. Shares and securities

Company, name and country		Share %	Votes %	currency	Book value '000 Wärtsilä Corp. direct ownership	Indirectly owned through a subsidiary
Metra Finance Oy Ab	Finland	100.0	100.0	EUR	32,125	
Vulcan Insurance Ltd. [1]	Great Britain	100.0	100.0	EUR	336	
Wärtsilä Oyj Abp, other subsidiaries (4)					706	
Wärtsilä Oyj Abp, housing and property companies (39)					2,385	
Total					531,228	
Associated companies						
Cervuctum Oy [2]	Finland	31.3	31.3	EUR		
Wasa Pilot Power Plant Oy	Finland	49.9	49.9	EUR		1,679
Wartsila Navim Diesel S.r.l.	Italy	40.0	40.0	EUR		13
Wärtsilä Corporation (other)					1,887	
Total					1,887	
Other companies						
Assa Abloy AB (publ)	Sweden	10.7	25.3	EUR	60,543	
Polar Real Estate Corporation	Finland	8.0		EUR	2,893	
Rautaruukki Corporation	Finland	0.1		EUR	59	
Sampo-Leonia Insurance Company Plc	Finland	0.6		EUR	3,798	
Sato-Yhtymä Oyj	Finland			EUR	1,853	
Power Partners Oy	Finland		19.5	EUR		820
Wärtsilä Corporation, other (30)					2,434	
Total					71,580	
Wärtsilä Corporation; total shares and securities					604,695	

A complete list of shares and securities in accordance with the Finnish Companies Act is included in the official financial statements. The profit/loss and shareholders' equity is not reported for those housing companies that were not consolidated in the Group.

[1] Vulcan Insurance Ltd not consolidated as a subsidiary; loss EUR 0.3 million and shareholders' equity EUR 0.5 million for the financial year 2000.

[2] Cervuctum Oy not consolidated as an associated company; loss EUR 0.6 million and shareholders' equity EUR 4.3 million for the financial year 2000.

Proposal of the Board

On 31 December 2001 the consolidated retained earnings of the Group amounted to EUR 657,981,000 and included distributable funds totalling EUR 621,568,000. The Parent Company's net profit for the financial year amounted to EUR 475,356,103.19 and the retained earnings to EUR 335,226,515.45. The distributable funds of the Parent Company on 31 December 2001 amounted to EUR 810,582,618.64. The number of shares entitled to a dividend is 59,453,860. The Board of Directors proposes that a dividend of EUR 0.50 per share be paid i.e. totally EUR 29,726,930.00 and in addition an extra dividend of EUR 3.50 per share, totalling EUR 208,088,510.00. After this the undistributed retained earnings in the Parent Company will be EUR 572,767,178.64.

Helsinki, 6 February 2002

Robert G. Ehrnrooth   Vesa Vainio

Georg Ehrnrooth   Göran J. Ehrnrooth   Jaakko Iloniemi

Paavo Pitkänen   Christoffer Taxell

Ole Johansson
President & CEO

Auditors' Report

to the shareholders of Wärtsilä Corporation

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the President and CEO of Wärtsilä Corporation for the year ended 31 December 2001. The annual accounts prepared by the Board of Directors and the President and CEO include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and the parent company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Board of Directors and the President and CEO have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The 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 made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

Helsinki, 7 February 2002
KPMG WIDERI OY AB

Mauri Palvi
Authorized Public Accountant

Five years in figures

MEUR		2001	2000	1999	1998	1997
Net sales		2,358.7	2,706.8	2,700.0	2,602.6	2,572.8
of which outside Finland	%	96.5	96.5	95.2	95.5	95.1
Exports from Finland		1,153.7	1,337.2	1,008.1	972.4	890.1
Personnel on average		10,846	10,715	15,945	14,021	13,892
of which in Finland		3,511	3,352	3,811	3,867	3,701
Orderbook, Power Divisions		1,516.5	1,624.2	1,314.9	1,210.2	1,177.0
From the income statement						
Depreciation and writedowns		126.0	103.1	112.9	110.5	95.2
Share of profits/losses in associated companies		0.1	12.0	–10.1	–40.5	–13.6
Operating profit		523.9	367.1	272.7	87.6	117.1
as a percentage of net sales	%	22.2	13.6	10.1	3.4	4.6
Net financial items		–15.2	–31.0	–35.7	–42.7	–50.8
as a percentage of net sales	%	–0.6	–1.1	–1.3	–1.7	–2.0
Profit before extraordinary items		508.7	336.1	237.0	44.9	66.3
as a percentage of net sales	%	21.6	12.4	8.8	1.7	2.6
Profit before taxes		502.7	315.7	234.5	41.4	66.1
as a percentage of net sales	%	21.3	11.7	8.7	1.6	2.6
Profit for the financial year		305.7	213.2	130.1	21.7	41.0
as a percentage of net sales	%	13.0	7.9	4.8	0.8	1.6
From the balance sheet						
Fixed assets		721.4	978.7	1,217.4	964.6	1,044.5
Current assets						
Inventories		668.3	539.0	667.7	679.8	588.7
Receivables		830.7	828.7	975.8	853.2	819.2
Cash and bank balances		184.6	118.9	110.3	83.9	122.4
Shareholders' equity		1,071.6	908.0	826.5	742.6	772.0
Minority interests		6.4	14.3	180.4	57.8	88.0
Provisions		183.0	109.4	173.4	102.8	96.9
Interest-bearing liabilities		168.3	485.0	794.3	686.8	796.2
Non-interest-bearing liabilities		975.7	948.5	996.6	991.4	821.8
Balance sheet total		2,405.0	2,465.3	2,971.2	2,581.5	2,574.8
Gross capital expenditure		97.1	207.7	263.8	163.7	282.6
as a percentage of net sales	%	4.1	7.7	9.8	6.3	11.0
Research and development expenses		81.4	81.4	86.9	86.6	93.5
as a percentage of net sales	%	3.5	3.0	3.2	3.3	3.6
Dividends paid for the financial year[1]		29.7	35.2	27.1	20.1	24.9
Supplementary dividend		208.1	108.4	127.4	64.0	
Dividends total		237.8	143.6	154.5	84.1	24.9
Financial ratios						
Earnings per share (EPS)	EUR	5.53	4.20	2.43	0.45	0.92
Dividend per share	EUR	4.00[1]	2.65	2.85	1.55	0.46
Payout ratio	%	72.3[1]	63.1	117.3	344.4	50.4
Interest coverage[2]		12.6	7.4	4.8	2.9	2.9
Return on investment (ROI)[2]	%	43.0	25.4	20.1	9.6	10.0
Return on equity (ROE)	%	33.7	27.6	18.0	–0.4	6.7
Solvency ratio 1[3]	%	47.3	35.1	31.4	28.3	30.1
Solvency ratio 2	%	48.6	40.2	35.5	33.2	35.0
Gearing 1[3]		0.01	0.60	0.90	1.05	1.07
Gearing 2		–0.02	0.40	0.68	0.75	0.78
Equity per share	EUR	18.60	14.59	13.09	11.60	12.11

[1]Proposal of the Board of Directors. Financial ratios calculated from total amount of dividend.
[2]The change in accounting practice in the Group's financing company applying to a portion of foreign currency forward contracts applies to the financial ratios from 1998 onwards.
[3]Please refer to the Calculation of Financial Ratios on page 69.

Calculation of Financial Ratios

Return on investment (ROI)

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

Return on equity (ROE)

$$\frac{\text{Profit before extraordinary items - taxes for the financial year}}{\text{Shareholders' equity + minority interests, average over the year}} \times 100$$

Interest coverage

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

Solvency ratio[1]

$$\frac{\text{Shareholders' equity + minority interests}}{\text{Balance sheet total - advances received}} \times 100$$

Gearing[2]

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

Earnings per share (EPS)

$$\frac{\text{Profit before extraordinary items - income taxes - minority interests}}{\text{Adjusted number of shares over the financial year}}$$

Equity per share

$$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the financial year}}$$

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)

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

[1]Solvency ratio 2, shareholders' equity includes subordinated debentures (EUR 28.1 mill.)
[2]Gearing 2, shareholders' equity includes subordinated debentures (EUR 28.1 mill.)

Financial risk management

Wärtsilä's Treasury function has two main objectives. It arranges adequate funding of the Group's underlying operations on competitive terms using debt and equity financing instruments. Treasury also hedges the Group and various companies against unfavourable changes in the financial markets and minimizes the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and shareholders' equity.

The risk policy is set by the Board of Directors. Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

FOREIGN EXCHANGE RISK

Some 41% of sales and 62% of operating costs took place in euro. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: the USD and GBP.

Foreign exchange risks are managed by each Group company separately in several local currencies. Several commercial currency surpluses and deficits like fixed purchase and sales contracts are hedged. The hedges reach out to 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 instruments, and their nominal values, used to hedge the Group's foreign exchange exposure are listed in the notes to the financial statements, page 64. Since Wärtsilä has subsidiaries outside the euro zone, the Group's non-restricted shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2001 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 192 million, of which EUR 138 million was hedged.

INTEREST RATE RISK

Capital adequacy was exceptionally good during 2001 owing to the sales of large lots of Sanitec and Assa Abloy shares.

At the end of 2001 interest-bearing loan capital totalled EUR 196.3 (602.2) million including the EUR 28.1 (117.2) million convertible subordinated debentures. The average interest rate was 4.8% (5.8) and the average refixing time 21 (16) months. The maturity profile, division by currency and other information on debt is provided on page 62. At the end of 2001 the effect of a 1 percentage point parallel change in the yield curve on the value of the net debt portfolio, excluding the subordinated convertible bond of EUR 28.1 million, would have been EUR 2.4 million.

The interest rate risk primarily represents changes in market rates of the loan portfolio and also to a minor extent changes in market interest rates related to cash and bank balances. Wärtsilä hedges its interest rate exposure by using derivative instruments such as interest rate swaps, forwards and options. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis. 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 2001 the ratio was 43% after adjustment for interest rate swaps.

LIQUIDITY AND REFINANCING RISK

Wärtsilä Group's liquidity is good. Wärtsilä had cash reserves totalling EUR 184.6 million at the year end as well as EUR 416 million in non-utilized committed credit facilities and substantial Commercial Paper programmes. Wärtsilä minimizes its refinancing risk using a balanced and sufficiently long maturity schedule. Information on the Group's loans is given on page 62.

CREDIT RISK

The management of the credit risks associated with ordinary commercial activities is the responsibility of the Divisions and the Group companies.

Major trade and project finance credit risks are minimized by sharing these risks between banks, insurance companies, export credit organizations and suppliers. The company's long-term suppliers' credits total EUR 76.8 million. No losses were recorded on suppliers' credits.

Credit risks related to the placement of liquid funds and to trading in financial instruments are minimized by setting explicit lines for the counterparties and by making agreements only with the most reputable domestic and international banks and financial institutions.

EQUITY PRICE RISK

Wärtsilä has certain investments in publicly quoted shares (see page 66). The market value of these shares at the end of 2001 was EUR 623 million. The company also has equity investments in power plant companies totalling EUR 31.8 million.

Jari Salo presents the Turku factory to the guests.

The Capital Markets Day attracted 38 investment analysts and bankers to Turku, Finland in September.

Sari Grönbärj and Kirsi Pitkänen introduces Wärtsilä at the Investor's, Fair in Turku in Finland.

Financial Analysts

To our knowledge at least the following brokers and financial analysts have followed Wärtsilä's development during the last 12 months on their own initiative. They have analyzed Wärtsilä Corporation 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 therein.

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INVESTOR RELATIONS AT WÄRTSILÄ

Wärtsilä holds conferences for investors, analysts, and the media on publication of its interim and annual results. The company's top management regularly meets investors in Europe and the USA, and analysts and investors are also invited to visit the company. Wärtsilä also arranges Capital Market Days which are attended by analysts and financiers. In Finland the company meets investors at the investor fairs and at local evening meetings arranged by the Finnish Foundation for Share Promotion. The material presented at the conferences is also published on Wärtsilä's Internet website.

Wärtsilä observes a four-week "silent period" preceding the publication of its results, during which the company's representatives do not meet investors or analysts or comment on the company's financial position.

Wärtsilä's Investor Relations Manager is responsible for Wärtsilä's relations with its investors and analysts.

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Corporate Management and Division Boards

CORPORATE MANAGEMENT

The Board of Management is presented on page 11.

Ms Bodil Berggren,
born 1957. MSc (Eng.). Chief Information Officer.
Mr Tom Eriksson,
born 1967. MSc (Econ.). Vice President,
Corporate Planning.
Mr Kari Hietanen,
born 1964, LLM. Vice President, Group General Counsel,
Company Secretary.
Ms Eeva Kainulainen,
born 1948. MSc (Soc.Sc.). Vice President,
Corporate Communications.
Mr Stéphane Lhuillier,
born 1961. MSc (Mech. Eng.). Vice President,
Human Resources.
Mr Kari Tähtinen,
born 1946. Doctor of Technology.
President of Imatra Steel Oy Ab.

BOARD OF MARINE DIVISION

Mr Mikael Mäkinen,
born 1956. MSc (Eng.), Naval Architect.
Group Vice President, Marine Division.
Mr Vicente Iza,
born 1953. Naval Architect. Vice President,
Marine Technology.
Mr Clas-Eirik Strand,
Born 1945. BSc (Eng), Vice President,
License Manufacturing.
Mr Leif Sund,
born 1948. BSc. Vice President,
Operational Development & Quality.
Mr Matti Vekkeli,
born 1959. MSc (Eng.). Vice President,
Marine Operations.
Mr Christoph Vitzthum,
born 1969. MSc (Econ.). Vice President,
Finance & Control.

BOARD OF POWER PLANTS DIVISION

Mr Pekka Ahlqvist,
born 1946. MSc (Eng.). Group Vice President,
Power Plants.
Mr Alf Doktar,
born 1953. BSc. Area Director, Asia.
Mr Stefan Gros,
born 1952. MSc (Chem. Eng.). Licentiate in Technology.
Vice President, Power Plant Technology.
Mr Jussi Heikkinen,
born 1955. MSc (Eng.). Vice President, Biopower.
Mr Lars-Gustav Martin,
born 1958. BSc. Area Director, Americas.
Mr Jan-Erik Nordmyr,
born 1957. MSc (Econ.). Vice President,
Finance & Business Control.
Mr Nils Norrgård,
born 1947. BSc (El.). Vice President,
Medium-Speed Products.
Mr Jyrki Uurtio,
born 1962. MSc (Eng.). Vice President,
High-Speed Products.

BOARD OF SERVICE DIVISION

Mr Tage Blomberg,
born 1949. BSc (Eng.). Group Vice President,
Service and Operations.
Mr Pierpaolo Barbone,
born 1957. MSc (Min. Eng.). Vice President, Field Service.
Mr Stefan Fant,
born 1955. BSc (Mech.). Vice President,
Operations & Maintenance.
Mr Werner Jungblut,
born 1965. Graduate of a commercial institute.
Vice President, Technical Service.
Mr Christer Kantola,
born 1952. BSc (Mech.). Vice President, Service.
Ms Eva-Stina Stén,
born 1967. MSc (Econ.). Vice President,
Finance & Control.
Mr Ben Wijkamp,
born 1962. MSc (Econ.), BSc (Eng.). Vice President, Parts.

BOARD OF TECHNOLOGY DIVISION

Mr Matti Kleimola,
born 1946. LicSc (Tech.). Prof., CTO,
Group Vice President, Technology and Environment.
Mr Ingemar Nylund,
born 1959. BSc. Vice President. Gas Engines.
Mr Leif Rönnskog,
born 1946. BSc. Vice President, Product Quality.
Mr Carl-Erik Rösgren,
born 1948. BSc. Vice President, Engine Design.
Mr Rolf Vestergren,
born 1948. BSc (Mech.). Vice President, Engine Performance and Environmental Technology.
Mr Kent Åstrand,
born 1965. MSc (Mech. Eng.). Vice President, Automation & Information Technology.

BOARD OF ENGINE MANUFACTURING DIVISION

Mr Sven Bertlin,
born 1944. BSc (Econ.). Executive Vice President, Group Vice President, Engine Manufacturing.
Mr Kim Backman,
born 1959. BSc. Vice President, Sourcing.
Mr Erik Pettersson,
born 1953. BSc. Vice President, Production.
Mr Hans Westö,
born 1947. MSc. Vice President, Business Control.

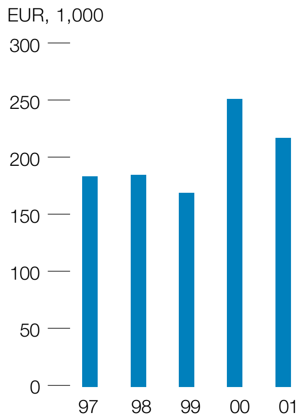
BOARD OF MANAGEMENT OF IMATRA STEEL OY AB

Mr Kari Tähtinen,
born 1946. Doctor of Technology.
President of Imatra Steel Oy Ab.
Mr Magnus Baarman,
born 1964. MSc (Chem. Eng.).
General Manager of Imatra Steel Billnäs Spring Works.
Mr Kalevi Laaksonen,
born 1943. BSc (Econ.). Corporate Controller.
Mr Kalevi Taavitsainen,
born 1949. MSc (Eng.). General Manager of Imatra Steel, Imatra Steel Works.
Mr Dan-Åke Widenberg,
born 1949. MSc (Econ.). Managing Director, Imatra Kilsta AB.

Personnel by country

	31 Dec. 2001	31 Dec. 2000
Finland	3,521	3,373
Italy	1,213	1,244
France	1,024	1,044
Netherlands	805	821
Sweden	554	503
Switzerland	428	396
Norway	333	335
Great Britain	303	149
Denmark	165	179
Spain	131	133
Germany	63	60
Portugal	43	43
Poland	23	18
Other Europe	90	82
Europe	8,696	8,380
India	719	688
Singapore	120	118
China, Hongkong	106	99
Other Asia	582	562
Asia	1,527	1,467
USA	334	238
Other Americas	440	373
Americas	774	611
Other countries	125	106
Total	11,122	10,564

Net sales/employee



Sermet Oy became part of Wärtsilä. Pekka Ahlqvist (left) and Juha Huotari signed the agreement.

Wärtsilä's Korean licence manufacturer Hyundai Heavy Industries celebrates the delivery of 30 million horsepower. Ole Johansson brought a message from Wärtsilä.

Main Releases 2001 in Brief

15 February 2001
Wärtsilä's power divisions show clear result improvement
The group consolidated operating profit EUR million 367.1
Wärtsilä Group's net sales totalled EUR 2,706.8 (2,700.0) million. The operating profit improved clearly to EUR 367.1 (272.7) million. The profit before extraordinary items was EUR 336.1 (237.0) million. Earnings per share were EUR 4.20 (2.43). The operating profit of the Power Divisions improved distinctly and was EUR 86.2 (-28.5) million.

21 February, 2001
Appointments in the Wärtsilä Group
Mr Pekka Ahlqvist, M Sc (Eng.) (54) has been appointed Group Vice President and Head of the Power Plants Division Wärtsilä as of 1 March 2001. He will also be member of the Board of Management of Wärtsilä Corporation.

12 March, 2001
Change in ownership of Wärtsilä's Japanese joint venture
Wärtsilä and Hitachi Zosen Corporation, the joint owners of Wärtsilä's 50/50 joint venture in Japan, Wärtsilä Diesel Japan, have concluded an agreement whereby Wärtsilä will increase its holding in the company to 85% and the second owner of the company will be Hitachi Zosen's subsidiary Imex Co. Ltd.

20 March, 2001
Wärtsilä´s Annual General Meeting
Wärtsilä's Annual General Meeting approved the financial statements and discharged the members of the Board of Directors and the President and CEO from liability for 2000. The AGM approved the proposal of the Board of Directors that in addition to a dividend of EUR 0.65 per share the Company will pay an extra dividend of EUR 2.00 per share.

21 March, 2001
Wärtsilä repurchases own shares
Wärtsilä's Board of Directors has decided to exercise the authorization granted by the Annual General Meeting on 20 March 2001 to repurchase the company's own shares. Repurchasing of the shares will start at the earliest on 28 March 2001 and will end no later than on 20 March 2002.

26 April, 2001
Wärtsilä sells its holding in Sanitec
Wärtsilä Corporation and a group of other shareholders have agreed to sell their holding in Sanitec Corporation to Pool Acquisition Helsinki Oy, a new Finnish company.

3 May, 2001
Wärtsilä intends to consolidate its sales and project management in Continental Europe
Wärtsilä intends to consolidate its sales and project management organisations in Continental Europe to enhance operational efficiency and customer service. There is also an intention to consolidate the organisation of Sulzer Z40 -type engine service and technology activities.

Wärtsilä to acquire a Swedish service company Ciserv
Wärtsilä Corporation has signed a letter of intent to acquire Ciserv AB, a Swedish service company from Aalborg Industries A/S. The acquisition supports Wärtsilä´s strategy to grow in the service business.

14 May, 2001
Wärtsilä sells 20 million shares in Assa Abloy
Wärtsilä Corporation sold 20 million series B shares of Assa Abloy AB (publ.) on the Stockholm Stock Exchange for 3,180 million Swedish krona (EUR 354 million). Wärtsilä will record a capital gain of approximately EUR 298 million on this sale.

7 June, 2001
Sale of Sanitec shares approved by European Commission
The European Commission has on 6 June 2001 approved the agreement whereby Wärtsilä Corporation and a group of other shareholders are selling their holdings in Sanitec Corporation to Pool Acquisition Helsinki Oy.

13 June, 2001
Wärtsilä exercises redemption right in respect of subordinated convertible bonds 1994

18 June, 2001
Wärtsilä receives 110 MW gas fired power plant order in the USA
Wärtsilä has received its largest order ever for a gas-fired turnkey power plant (110 MW), located near the City of Plains End, Colorado. It will be one of the largest in the USA to use natural gas powered reciprocating engines.

2 July, 2001
Wärtsilä takes ownership of Swedish service company Ciserv
Wärtsilä and the Danish company Aalborg Industries A/S have closed the agreement transferring the Swedish service company Ciserv AB to Wärtsilä.

16 July, 2001
More than a half of Wärtsilä Corporation convertible subordinated bonds 1994 converted – redemption on 16 July 2001 will not materialize

4 September, 2001
Wärtsilä dual-fuel engined power module for a offshore vessel
Wärtsilä has supplied a Power Module to the FPSO (floating production, storage and offloading) vessel "Berge Hus".

6 September, 2001
Wärtsilä supplies equipment for the oil pumping stations to Ecuador
In June Wärtsilä was awarded the contract to supply equipment for the pumping stations to the new Heavy Crude Oil pipeline in Ecuador. Wärtsilä will supply equipment for 22 pumping units in total.

1 October, 2001
Wärtsilä EnviroEngines for the "Queen Mary II"
Wärtsilä will deliver four Wärtsilä 46 EnviroEngines for Cunard Line's new luxury transatlantic liner, "Queen Mary II". These engines will incorporate the latest Common Rail fuel injection technology for smokeless operation.

10 October, 2001
Recognition for Wärtsilä's first Environmental Report
Wärtsilä Group's first Environmental Report was ranked the best separate environmental report in 2001 alongside M-Real's report in a competition held in Finland annually to judge the environ-

The Paragould gas power plant was delivered to the customer in June. The power plant is located in Arkansas, USA.

Adventure of The Seas is powered by Wärtsilä systems

Wärtsilä will supply the complete marine power system for the tanker to be built at the San Marco shipyard in Italy.

mental and social responsibility reporting of Finnish companies.

18 October, 2001
Wärtsilä expands into biopower and acquires an established company in the market
Wärtsilä will expand its power plant range to include biomass fuelled plants. The company has signed an agreement to acquire Finnish company Sermet Oy, which specialises in small and medium-sized boiler plants running on biofuels, oil and gas.

30 October, 2001
First Wärtsilä deliveries of LNG-fuelled engines for offshore vessels
Wärtsilä has received a contract to deliver eight dual-fuel engines to two offshore supply vessels. These will be the first offshore vessels using gas as a fuel.

2 November, 2001
Orders for smokeless low-speed engines for Wärtsilä
Wärtsilä reports orders for Sulzer RT-flex diesel engines for two multipurpose carriers to be built at Shanghai Shipyard in China. The order consists of low-speed marine engines to have Common Rail fuel injection. These engines reduce emissions and they lack visible exhaust smoke.

6 November, 2001
Imatra Steel strengthens its position as a component manufacturer
Imatra Steel has acquired a forge in Scotland. The acquisition will strengthen the position of Imatra Steel's subsidiary, Imatra Kilsta, as one of the world's leading manufacturers of heavy forgings for the heavy truck industry.

13 November, 2001
Wärtsilä to increase shareholding in Wärtsilä India ltd
Wärtsilä Corporation made a public offer on August 30, 2001 to buy out all the 5,896,700 shares representing 49% of the share capital from the minority shareholders of Wärtsilä India Ltd. The offer period expired on November 6, 2001. Based on the offer Wärtsilä Corporation has now increased its shareholdings in Wärtsilä India Ltd. from 51% to 85%. The total amount of the transaction is about EUR 11,4 million and it will be closed in December 2001.

Wärtsilä in talks about acquisition of John Crane-Lips
Smiths Group and Wärtsilä Corporation announce that they are in exclusive discussions regarding a possible sale by Smiths Group of John Crane-Lips to Wärtsilä. A definitive sale agreement would be subject to the approval of relevant authorities. Further announcements will be made as and when appropriate.

15 November, 2001
New bio-fuel CHP plant provides energy for Swedish city
In a drive to increase the energy supply capacity for the city of Tranås in Sweden, Tranås Energi AB, a Swedish energy company, has awarded a contract for a new 10 MW bio-fuel boiler plant to Sermet Oy, Finland.

16 November, 2001
Wärtsilä intends to close the plant in Zwolle, the Netherlands
Wärtsilä intends to change its Dutch subsidiary Wärtsilä Nederland into a service company. In addition to its sales and service activities Wärtsilä Nederland today manufactures medium speed Wärtsilä 26, 28SG and 38 engines. Consultations on the intended changes have been initiated with the employee representatives.

November 26, 2001
Wärtsilä 1996 option rights admitted to listing
Trading with option rights issued in 1996 opens on the main list of Helsinki Stock Exchange on 28 November 2001.

14 December, 2001
Wärtsilä will make a provision for the intended closure of the Zwolle factory
Wärtsilä will make a provision for the costs arising from the announced closure in this year's financial statements. The provision is estimated to be in the range of EUR 70-90 million.

18 December,2001
Wärtsilä sells the manufacturing of welded parts to Meloni
Wärtsilä Italia S.p.A. and Meloni Heavy Industries S.p.A. have today finalised an agreement concerning the manufacturing of welded parts. Wärtsilä transfers its entire component factory business in Italy including assets and resources to Meloni on 1 January 2002. About 115 employees will move to Meloni.

WÄRTSILÄ COMMUNICATIONS POLICY

Wärtsilä discloses information on its goals, financial position and business operations in an open, truthful, systematic and timely manner to enable the stakeholders to form a true and fair view of the company.

Wärtsilä's communications activities comprise internal and external corporate communications and investor relations.

Wärtsilä publishes stock exchange releases and stock exchange announcements, general press releases and trade press releases. Wärtsilä's subsidiaries publish press releases with local relevance. Stock exchange releases give information on news that could affect the share price. Stock exchange announcements are releases of a technical nature. Press releases provide information on business-related news or other news of a general interest to Wärtsilä stakeholders. Releases to the trade press provide more detailed information on Wärtsilä's products and technology. All releases are published in Finnish, Swedish and English except those to the trade press, which are produced only in English. The Stock Exchange releases and press releases are available on Internet immediately after publishing.

Glossary

Terms frequently used in publications by Wärtsilä's Power Divisions.

Baseload = Power plants running for more than 8,000 hours/year, i.e. generating power for continuous use.

Biofuel = Biofuels are a large and relatively unexplored source of energy worldwide. They are derived from forest, swamp and agricultural biomass, and from organic solid, liquid and gaseous biowastes recoverable from municipal, agricultural and industrial processes.

Biopower = Biofuels are considered renewables; therefore biopower is viewed as a "clean" technology.

Boiler plant = The plant entity which includes the boiler and all the necessary equipment and auxiliary components needed for operating the plant process.

cgt (compensated gross tonnage) = The compensated tonnage of a ship, i.e. the ship's volume adjusted (compensated) by a factor to render the amount of work at the yard equivalent for different types and sizes of ship.

CO_2 = Carbon dioxide. A component in an engine's exhaust gases formed when fossil fuels are burned. The most significant greenhouse gas in the atmosphere; it prevents thermal radiation entering the atmosphere from being reflected back into space.

Cogeneration = The simultaneous generation of electricity and heat. Also called Combined Heat and Power (CHP). This method raises total efficiency to above 90% since the heat produced by power generation is recovered and used, for example, in industrial processes or to supply district heat.

Combined cycle technology = The use of two different power generation processes, e.g. fuel engines and steam turbines, in the same power plant. The second process utilizes the heat recovered from the first.

Combined heat and power = CHP = means recovering and using the heat produced as a by-product of the electrical generation process.

Common Rail = A method of fuel injection that eliminates the principle of one pump/cylinder. The Common Rail is constructed from a series of accumulators inter-connected by small-bore piping. The injection pressure is adjusted as desired and the injection timing (start and stop) controlled electronically. Wärtsilä has used Common Rail technology to develop the "smokeless engine", which also reduces NO_x and CO_2 emissions.

DCC (Diesel Combined Cycle) = Technology utilizing both the shaft output and thermal output of a diesel engine. The thermal output is used to drive a steam turbine, for example.

Decentralized power plant = a small local power plant for small towns, communities or industrial processes.

$DeNO_x$ = Secondary emission reduction technology for emissions of nitrogen oxides. Commonly used technology is Selective Catalytic Reduction (SCR) system.

$DeSO_x$ = Secondary emission reduction technology for emissions of sulphur oxides. Examples include alkali scrubbing and semidry $DeSO_x$ using quicklime or calcium carbonate scrubbers.

DWI (Direct Water Injection) = A method in which water is injected into the engine cylinders prior to fuel injection in order to reduce nitrogen oxide emissions. Direct water injection reduces the combustion temperature and therefore the formation of nitrogen oxides.

Electrical efficiency = In simple cycle, the ratio between the input fuel energy and the electrical energy produced.

EnviroEngine™ = A smokeless diesel-electric propulsion package developed jointly by Wärtsilä and Carnival Corporation for marine vessels. Combines the use of Common Rail and DWI technologies. Since both methods are electronically controlled, the EnviroEngine offers an optimized combination of engine efficiency, smoke emissions and NO_x emissions.

Eutrophication = a process by which pollution from such sources as sewage effluent or leachate from fertilized fields causes a lake, pond or fen to become overrich in organic and mineral nutrients, so that algae grow rapidly and deplete the oxygen supply.

Four-stroke engine = An engine in which the pistons complete their power stroke every second crankshaft revolution.

FSN (Filter Smoke Number) = A unit defining the amount of smoke. When measuring, exhaust gas is fed through a special filter element, the colour of which is then analyzed optically.

Gas compression = The raising of gas pressure and density for further processing. This makes it possible to use smaller storage tanks or pipes to transport a given quantity of gas.

Gasification = The production of fuel gas from biofuel for heat and/or power generation. This is a relatively new technology that is currently being developed and commercialized.

GT (gross tonnage) = The gross tonnage of a vessel, i.e. its total enclosed volume.

GTCC (Gas Turbine Combined Cycle) = Technology utilizing the shaft and thermal outputs of a gas turbine.

HFO = Heavy fuel oil

High-powered special vessels = Passenger or naval vessels able to travel at high speeds.

High-speed engine (diesel/gas) = An engine running at speeds over 1,200 rpm (revolutions per minute).

Hot combustion = A method that raises the temperature of the engine exhaust gases by reducing the air intake and isolating the combustion chamber. This increases total efficiency and enhances the engine's suitability for combined cycle technology.

IMO = The International Maritime Organization.

Independent Power Producer (IPP) = A private corporation producing electricity for sale on a national grid. Also an IPP power plant.

Lean-burn gas engine = A gas-fired engine in which the gas-air mixture in the engine's cylinders contains substantially more air (roughly double) than required for complete combustion of the gas. The over-abundance of air achieves high output and efficiency combined with low nitrogen oxide emissions.

Licensee = A company authorized to manufacture under licence and that pays royalty fees on the products sold. Wärtsilä's low-speed Sulzer engines are mainly manufactured under licence.

Load management = Meeting varying demand for power, e.g. producing more energy when required.

Low NO_x technology = A method for reducing nitrogen oxide emissions that also raises engine efficiency. Emission levels are reduced by regulating the combustion temperature in the cylinders and the duration of fuel injection.

Low-speed engine = An engine running at speeds below 300 rpm.

Medium-speed engine (diesel/gas) = An engine running at speeds of 300-1,200 rpm.

Multi-fuel engine = A Wärtsilä engine running on both gaseous and liquid fuels. (Engines denoted DF and GD are multi-fuel engines).

Multi-purpose container carrier = A freighter carrying primarily containers but also able to transport other unitized cargo.

NO_x = Nitrogen oxides (NO and NO_2). Products formed during the combustion of nitrogen in both the fuel and combustion air. Nitrogen oxides contribute to local eutrophication and acidification.

NT (net tonnage) = The net tonnage of a vessel, i.e. the volume of its payload spaces.

O&M = Operations and Maintenance.

OEM = Original Equipment Manufacturer.

Offshore = Industrial activity at sea, e.g. drilling and pumping at an oil or gas well.

OpExS (Operative Excellence System) = A Wärtsilä program that seeks to enhance operational excellence throughout the production chain. Covers quality, environmental, occupational health and safety issues and self-assessment.

Orimulsion® = An emulsion of Orinoco bitumen and water produced in Venezuela.

Panamax vessel = A vessel whose main dimensions (beam/length/draught) are limited to enable the vessel to negotiate the Panama Canal.

Post-panamax vessel = A vessel too large for the Panama Canal. Generally refers to cruise ships and large container ships.

Propulsion package = The propulsion train used to drive a ship (propeller, reduction gear, engine, etc.).

Pyrolysis = The production of a fuel gas which can be processed as oil and which is combustible in boilers or diesel engines. This is still at the R&D stage although pilot plant projects exist.

RoPax vessel = Combined RoRo and passenger ship, a ship equipped with large Roro decks and limited passenger facilities.

RoRo vessel = Roll-On/Roll-Off, a ship designed for carrying vehicles and wheelbased cargo, which are driven onboard and ashore.

Selective Catalytic Reduction (SCR) = A method to reduce NOx emissions using a catalytic converter fitted after the engine. The catalytic converter requires the addition of an ammonia or a urea solution to the exhaust gases.

Semi-submersible vessel = A vessel designed to be partially submerged to perform a specific task (e.g. semi-submersible oil or gas drilling rigs).

Sermet BioGrate = The patented Sermet BioGrate combustion technology is especially suitable for burning wood waste, bark and sawdust. Sermet BioPower small power plant technology is based on Sermet BioGrate combustion technology.

Shaft efficiency = The ratio between the mechanical power measured on the engine shaft and the chemical power of the input fuel.

Shaft output = The power output developed by the engine's crankshaft.

Simple cycle = Power generation using only a thermal power plant.

SO_2 = Sulphur dioxide. Formed by the combustion of sulphur when burning sulphur-containing fuels. Sulphur dioxide contributes to acidification.

tdw (tons dead weight) = The difference between the displacement and the lightweight of a ship, i.e. the combined weight of its cargo, passengers, crew, stores, fuel and other liquids.

TEU (Twenty-foot equivalent unit) = 1 TEU is equivalent to the capacity of one 20-ft long container; hence a 12,500 TEU containership can in principle carry 12,500 containers. The TEU takes no account of a container's weight.

Traditional fuel injection = Mechanically controlled fuel injection. Each engine cylinder has its own fuel injection pump and all the pumped fuel is fed directly into the cylinder.

Turbocharging = The pressure of the air fed into the cylinder is raised using the energy in the engine's exhaust gas. This increases the amount of air in the cylinder, allowing injection of a higher quantity of fuel for greater output.

Turnkey power plant = A power plant delivered to the customer ready for operation.

Two-stroke engine = An engine in which the pistons complete their power stroke every crankshaft revolution.

ULCC tanker = Ultra Large Crude Carrier, an ocean-going supertanker designed to carry extremely large amounts of crude oil (>300,000 dwt).

VLCC tanker = Very Large Crude Carrier, an ocean-going supertanker designed to carry large amounts of crude oil (>200,000 dwt).

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