

# Interim Report

JANUARY-MARCH 2004



# INTERIM REPORT JANUARY-MARCH 2004 WÄRTSILÄ CORPORATION

- Net sales rose 6.9% to EUR 521.7 million
- Group's operating income EUR 101.5 million includes capital gains totalling EUR 107.7 million
- Power Businesses operating income EUR -9.2 million
- Full-year forecast unchanged i.e. profitability will improve slightly
- Personnel consultations completed, production in Turku to be discontinued
- Largest power plant order in Wärtsilä's history: two power plants to Irak, total output 680 MW, EUR 361 million

## WÄRTSILÄ GROUP IN BRIEF

| EUR mill.                      | 1-3/2004 | 1-3/2003 | Change% | 2003    |
|--------------------------------|----------|----------|---------|---------|
| Net sales                      | 521.7    | 488.1    | 6.9%    | 2,357.5 |
| Operational EBITA <sup>1</sup> | 0.5      | 16.2     |         | 127.0   |
| Operational EBIT               | -6.3     | 9.5      |         | 100.0   |
| Nonrecurring costs&income      | 107.7    | -4.5     |         | -118.5  |
| Operating income               | 101.5    | 5.0      |         | -18.4   |
| Result before taxes            | 97.4     | 0.3      |         | -34.4   |
| Earnings per share (EPS), EUR  | 1.18     | -0.08    |         | -0.66   |

<sup>1</sup>EBITA is operating income before amortization of goodwill on consolidation.

Wärtsilä Group's net sales rose by 6.9% compared to the same period in 2003. The Group's operating income was EUR 101.5 (5.0) million, which included a one-time capital gain of EUR 107.7 million on the sale of Assa Abloy shares. Personnel consultations on ending engine manufacture at the Turku (Finland) and Mulhouse (France) factories affected production and deliveries with the result that the first-quarter operating income of the Power Businesses was clearly weaker than last year, EUR -9.2 (8.3) million. Imatra Steel's operational EBIT was EUR 2.9 (1.1) million. Imatra Steel's previous year's result was burdened by a one-time writedown of fixed assets totalling EUR 4.5 mill.

Net financial expenses were EUR -4.1 (-4.7) million. The Group recorded result before taxes of EUR 97.4 (0.3) million. Earnings per share (EPS) were EUR 1.18 (-0.08).

Capital expenditure in the review period amounted to EUR 10.0 (12.6) million. Cash reserves at the close of the period stood at EUR 149.2 (128.5) million. Net interest-bearing loan capital decreased to EUR 271.6 (534.5) million owing to strong cash flow in 2003 and the sale of shares this year. The solvency ratio was 37.3% (34.2) and gearing was 0.35 (0.70).

Personnel consultations on discontinuing manufacturing at Turku were completed at the beginning of March. Production of large engines will be concentrated in Trieste, Italy. Of the various solutions, this was the most appropriate with respect to reducing overcapacity and maintaining the company's future operating capabilities. Agreement has been reached with the personnel on completing the production programme on schedule and to its full extent, and production will cease by the end of the current year. A total of 425 employees at the Turku factory will be made redundant, roughly 135 of whom will be eligible for an unemployment pension.

The Turku factory will become a service unit. In addition to service, Wärtsilä will continue to have a Ship Power unit, product support for the Wärtsilä 46 engine and various other support functions in Turku. In the future the unit will have slightly over 200 employees.

The personnel consultations in Mulhouse, France, were concluded in March. Redundancies have been started in this company.

## GROUP NET SALES BY BUSINESSES

| EUR mill.          | 1-3/2004 | 1-3/2003 | Change% | 2003    |
|--------------------|----------|----------|---------|---------|
| Power Businesses   | 463.3    | 433.1    | 7.0%    | 2,155.8 |
| Imatra Steel       | 58.7     | 55.1     | 6.5%    | 202.7   |
| Internal net sales | -0.3     | -0.1     |         | -1.0    |
| Total              | 521.7    | 488.1    | 6.9%    | 2,357.5 |

## GROUP OPERATING INCOME BY BUSINESSES

| EUR mill.              | 1-3/2004           | 1-3/2003 | 2003              |
|------------------------|--------------------|----------|-------------------|
| Operational EBIT,      |                    |          |                   |
| Power Businesses       | -9.2               | 8.3      | 95.0              |
| Imatra Steel           | 2.9                | 1.1      | 5.1               |
| Group operational EBIT | -6.3               | 9.5      | 100.0             |
| Nonrecurring costs,    |                    |          |                   |
| Power Businesses       |                    |          | -130.0            |
| Imatra Steel           |                    | -4.5     | -4.4              |
| Capital gains          | 107.7 <sup>1</sup> |          | 15.9 <sup>2</sup> |
| Group operating income | 101.5              | 5.0      | -18.4             |

<sup>1</sup>Assa Abloy, <sup>2</sup>Polar

| POWER BUSINESSES: Ship Power, Service and Power Plants | 1-3/2004 | 1-3/2003 | Change%            | 2003    |
|--|----------|----------|--------------------|---------|
| EUR mill.  |          |          |                    |         |
| Net sales  | 463.3    | 433.1    | 7.0%               | 2,155.8 |
| Operating income                                       | -9.2     | 8.3      | -35.0 <sup>1</sup> |         |
| % of net sales   | -2.0%    | 1.9%     |                    | -1.6%   |
| Order intake   | 888.7    | 590.4    | 50.5%              | 2,148.7 |
| Order book, end of period                              | 1,656.2  | 1,368.5  | 21.0%              | 1,245.0 |

<sup>1</sup>Year 2003 incl. restructuring provisions EUR 130 million.

The operating income of the Power Businesses decreased to EUR -9.2 (8.3) million. The main reasons were delays in production and deliveries at the Turku works, the recognition of revenue on certain low-margin projects during the review period, and an unrealized power plant project, the costs of which were entered under expenses. The BioPower business incurred cost overruns as well. Power businesses corresponding operating margin was -2.0% (1.9). The volume of new orders received during the period was 50.5% higher than one year earlier due to more lively demand for power plants.

| Ship Power                | 1-3/2004 <sup>1</sup> | 1-3/2003 <sup>1</sup> | Change% | 2003 <sup>1</sup> |
|---------------------------|-----------------------|-----------------------|---------|-------------------|
| EUR mill.                 |                       |                       |         |                   |
| Net sales                 | 119.0                 | 132.7                 | -10.3%  | 686.1             |
| Order intake              | 196.0                 | 199.7                 | -1.8%   | 626.4             |
| Order book, end of period | 675.9                 | 724.9                 | -6.8%   | 606.8             |

<sup>1</sup>Includes license sales.

First-quarter net sales of the Ship Power business, EUR 119 million, were 10.3 % lower than in the same period in 2003 owing to the postponement of deliveries. The order intake was at the same good level as one year earlier and the order book was higher than at the end of 2003 although somewhat below the level at the end of March 2003.

The most important orders for medium-speed engines in the first quarter were Wärtsilä main engines and Lips steerable thrusters for an offshore platform ordered by Keppel Fels in Singapore, as well as the main engines for a cruise ship ordered by Costa Crociere from Fincantieri. Wärtsilä main and auxiliary engines are also being installed in RoPax vessels for Finnlines under construction at the Fincantieri shipyard.

The most important propulsion orders were for controllable pitch propellers (CPP) and reduction gearboxes for three tankers which will be built at the JSC Volgograd shipyard for Brovigs Rederi AS, and CPPs, reduction gearboxes, seals and bearings for three sea rescue vessels being built for the Shanghai Bureau of Shipping in China.

The first low-speed Sulzer 6RT-Flex50 engines built in co-operation with Mitsubishi Ltd. were ordered for Greek-owned vessels being built in China.

| Service                  | 1-3/2004 | 1-3/2003 | Change% | 2003  |
|--------------------------|----------|----------|---------|-------|
| Net sales, EUR mill.     | 223.2    | 216.9    | 2.9%    | 885.5 |
| Personnel, end of period | 6,135    | 5,822    | 5.4%    | 5,993 |
| Service agreements, MW   | 9,680    | 9,953    | -2.7%   | 9,629 |
| O&M agreements, MW       | 2,318    | 2,085    | 11.2%   | 2,289 |

Net sales of the Service business showed a slight increase, 2.9%. Growth was weakened by the US dollar-euro exchange rate. Without adjustments to exchange rates, growth was 8%. Long-term service agreements and operations and maintenance (O&M) agreements cover 12,000 MW, or roughly 9% of Wärtsilä's active engine base (130,000 MW). Long-term service agreements cover 9,680 MW. The number of O&M agreements rose 11.2% compared to the first quarter of 2003 and these now cover over 2,300 MW, or 135 power plants around the world.

A new company was added to the Ciserv group when Wärtsilä decided to set up a marine service company in Korea at the beginning of April. Called Ciserv Korea Ltd., the new company will increase the volume of service and repair of two-stroke engine components in Asia.

# WÄRTSILÄ GROUP UNAUDITED

## INCOME STATEMENT

| EUR mill.                                       | 1-3/2004 | 1-3/2003 | 2003     |
|---|----------|----------|----------|
| Net sales                                       | 521.7    | 488.1    | 2,357.5  |
| Other operating income                          | 111.4    | 6.0      | 37.9     |
| Expenses  | -508.5   | -458.7   | -2,257.7 |
| Depreciation and write downs                    | -23.1    | -30.1    | -156.0   |
| Share of profits/losses in associated companies | 0.0      | -0.3     | 0.0      |
| Operating income                                | 101.5    | 5.0      | -18.4    |
| Financial income and expenses                   | -4.1     | -4.7     | -15.9    |
| Result before taxes                             | 97.4     | 0.3      | -34.4    |
| Income taxes <sup>1</sup>                       | -26.7    | -5.2     | -4.0     |
| Minority interests                              | -0.2     | -0.1     | -0.9     |
| Result of the financial period                  | 70.5     | -5.0     | -39.3    |

<sup>1</sup>Taxes calculated on the profit for the period.

## BALANCE SHEET

| EUR mill.                  | 31 March 2004 | 31 March 2003 | 2003    |
|----------------------------|---------------|---------------|---------|
| Fixed assets               | 850.8         | 993.8         | 887.3   |
| Current assets             |               |               |         |
| Inventories                | 550.8         | 666.0         | 555.5   |
| Receivables                | 766.4         | 766.2         | 790.1   |
| Cash and bank balances     | 149.2         | 128.5         | 150.0   |
| Total                      | 2,317.3       | 2,554.6       | 2,382.9 |
| Share capital              | 208.8         | 208.1         | 208.8   |
| Other shareholders' equity | 623.5         | 634.6         | 595.8   |
| Minority interests         | 6.6           | 6.3           | 6.1     |
| Provisions                 | 226.4         | 141.3         | 235.1   |
| Long-term liabilities      | 338.0         | 298.6         | 327.2   |
| Current                    | 914.0         | 1,265.7       | 1,009.9 |
| Total                      | 2,317.3       | 2,554.6       | 2,382.9 |

## GROSS CAPITAL EXPENDITURE

| EUR mill.                                  | 1-3/2004 | 1-3/2003 | 2003 |
|--|----------|----------|------|
| Investments in securities and acquisitions |          |          |      |
| Power Businesses                           |          | 0.8      | 2.6  |
| Other investments                          |          |          |      |
| Power Businesses                           | 9.3      | 9.6      | 51.2 |
| Imatra Steel                               | 0.7      | 2.2      | 11.6 |
| Group                                      | 10.0     | 12.6     | 65.4 |

## INTEREST-BEARING LOAN CAPITAL

| EUR mill.                           | 31 March 2004 | 31 March 2003 | 2003   |
|-------------------------------------|---------------|---------------|--------|
| Long-terms liabilities              | 298.6         | 254.4         | 288.2  |
| Current liabilities                 | 112.2         | 417.4         | 208.6  |
| Convertible subordinated debentures | 26.4          | 27.9          | 27.5   |
| Loan receivables                    | -16.5         | -36.6         | -21.2  |
| Cash and bank balances              | -149.2        | -128.5        | -150.0 |
| Net                                 | 271.6         | 534.5         | 353.2  |

## FINANCIAL RATIOS

|                                  | 1-3/2004 | 1-3/2003 | 2003  |
|----------------------------------|----------|----------|-------|
| Earnings per share, EUR          | 1.18     | -0.08    | -0.66 |
| Diluted earnings per share, EUR  | 1.17     |          |       |
| Book value of equity /share EUR  | 13.51    | 13.70    | 13.03 |
| Solvency ratio 1, %              | 37.3     | 34.2     | 35.0  |
| Solvency ratio 2, % <sup>1</sup> | 38.6     | 35.4     | 36.2  |
| Gearing 1                        | 0.35     | 0.70     | 0.48  |
| Gearing 2 <sup>1</sup>           | 0.31     | 0.64     | 0.43  |

<sup>1</sup>In solvency ratio 2 and gearing 2 shareholders' equity includes the convertible subordinated debentures EUR 26.4 million (27.9).

## FINANCIAL ANALYSIS

| EUR mill.  | 1-3/2004 | 1-3/2003 | 2003  |
|--|----------|----------|-------|
| Cash flow from operating activities                                  |          |          |       |
| Operating result   | 101.5    | 5.0      | -18.4 |
| Depreciations and write downs  | 23.1     | 30.1     | 156.0 |
| Selling profit and loss of fixed assets and other adjustments        | -109.0   | 0.3      | -22.7 |
| Changes in working capital   | 3.1      | -16.5    | 96.2  |
| Cash flow from operating activities before financial items and taxes | 18.6     | 18.9     | 211.1 |
| Net financial income and expenses and paid income taxes              | -16.6    | -17.4    | -19.0 |
| Cash flow from operating activities (A)                              | 2.0      | 1.6      | 192.1 |

### Cash flow from investing activities:

|   |       |       |       |
|---|-------|-------|-------|
| Investments in tangible and intangible assets | -9.3  | -11.2 | -62.8 |
| Investments in shares and acquisitions        |       | -0.6  | -2.6  |
| Proceeds from sale of shares                  | 134.4 |       | 7.5   |
| Cash flow from other investing activities     | 1.6   | 0.5   | 35.7  |
| Cash flow from investing activities (B)       | 126.7 | -11.3 | -22.2 |

### Cash flow from financing activities:

|  |        |        |        |
|--|--------|--------|--------|
| Issuance for share capital                                 | 1.0    | 0.1    | 1.4    |
| New long-term loans  | 8.2    | 52.4   | 303.0  |
| Amortisation and other changes to long-term loans          | 9.6    | -86.9  | -337.0 |
| Paid dividends   | -44.8  | -103.3 | -104.6 |
| Changes in short-term loans and other financing activities | -103.6 | 90.1   | -68.6  |
| Cash flow from financing activities (C)                    | -129.4 | -47.6  | -205.8 |

|   |      |       |       |
|---|------|-------|-------|
| Change in liquid funds (A+B+C), increase(+)/decrease(-) | -0.7 | -57.3 | -35.9 |
|---|------|-------|-------|

|                                     |       |       |       |
|-------------------------------------|-------|-------|-------|
| Liquid funds at beginning of period | 150.0 | 185.8 | 185.8 |
| Liquid funds at end of period       | 149.2 | 128.5 | 150.0 |

## PERSONNEL

|                          | 1-3/2004 | 1-3/2003 | 2003   |
|--------------------------|----------|----------|--------|
| On average               |          |          |        |
| Power Businesses         | 10,928   | 10,923   | 10,976 |
| Imatra Steel             | 1,215    | 1,382    | 1,317  |
| Group                    | 12,143   | 12,305   | 12,293 |
| Personnel, end of period | 12,152   | 12,272   | 12,110 |

## CONTINGENT LIABILITIES

| EUR mill.                             | 31 March 2004 | 31 March 2003 | 2003  |
|---------------------------------------|---------------|---------------|-------|
| Mortgages                             | 43.2          | 65.1          | 51.7  |
| Chattel mortgages                     | 34.4          | 46.8          | 32.5  |
| Total                                 | 77.6          | 111.9         | 84.2  |
| Guarantees and contingent liabilities |               |               |       |
| -on behalf of the company             | 238.9         | 272.0         | 258.9 |
| -on behalf of assoc. companies        |               | 1.1           |       |
| Leasing obligations                   | 35.5          | 39.3          | 51.3  |
| Total                                 | 274.4         | 312.4         | 310.2 |

## NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

| EUR mill.                          | Total   | of which closed |
|------------------------------------|---------|-----------------|
| Interest rate swaps                | 250.0   | 160.0           |
| Foreign exchange forward contracts | 1,060.6 | 51.4            |
| Currency options, purchased        | 145.9   |                 |

If all above instruments had been sold at market prices at the end of the period, the effect would be EUR -10.9 million.



| Power Plants              | 1-3/2004 | 1-3/2003 | Change% | 2003  |
|---------------------------|----------|----------|---------|-------|
| EUR mill.                 |          |          |         |       |
| Net sales                 | 120.5    | 81.1     | 48.6%   | 577.5 |
| Order intake              | 470.8    | 163.1    | 188.7%  | 639.3 |
| Order intake MW           |          |          |         |       |
| HFO                       | 782      | 295      | 165.1%  | 1,249 |
| Gas plants                | 208      | 33       | 539.1%  | 219   |
| BioPower, MW <sup>h</sup> | 43       | 83       | -47.9%  | 133   |
| Order book, end of period | 692.8    | 337.8    | 105.1%  | 357.2 |

The January-March power plant order intake was particularly high due to the order signed in March for two power plants to Iraq, the largest order ever placed in Wärtsilä's history, EUR 341 million. The total output for the two power plants is 680 MW. The delivery is planned mainly to take place during 2005.

The January-March order intake was almost three times higher than in the same period last year and the order book at the end of March was more than twice as high as the figure one year earlier and 94% higher than at the end of 2003.

In addition to the Iraq orders, Wärtsilä also received other significant orders from India and Japan. The intake of orders for heavy fuel oil (HFO) power plants rose as a result of the Iraq plants, but noteworthy was also the significant growth in orders for gas power plants compared with the first quarter in 2003.

| IMATRA STEEL     | 1-3/2004 | 1-3/2003 | Change % | 2003  |
|------------------|----------|----------|----------|-------|
| EUR mill.        |          |          |          |       |
| Net sales        | 58.7     | 55.1     | 6.5%     | 202.7 |
| Operating income | 2.9      | -3.4     |          | 0.7   |
| % of net sales   | 4.9%     | -6.1%    |          | 0.3%  |

The growth of net sales was 6.5% as Billnäs Spring Works still was a part of Imatra Steel during the same period last year. The comparable net sales growth during January-March was 12.8%.

Demand for special engineering steels showed modest recovery and delivery volumes of both steels and forgings increased.

Imatra Steel's operating income was EUR 2.9 (-3.4) million. Last year's result was burdened by a one-time EUR 4.5 million writedown of fixed assets (the comparable result in Q1/2003 was EUR 1.4 million). The improvement in performance was attributable to the investment in the base metallurgical line and the company's streamlining measures. The result was especially burdened by a rapid and exceptionally strong increase in raw materials prices which the company was only partly able to pass on to its steel and forgings prices.

#### HOLDING IN ASSA ABLOY

Wärtsilä sold its entire holding of Assa Abloy AB (publ.) Series A shares, i.e. 10,546,425 for SEK 116.50 per share, or SEK 1,228.7 million (EUR 133.3 million). On this sale Wärtsilä entered a capital gain of EUR 107.7 million.

Wärtsilä still owns 4.7% of Assa Abloy's share capital. The market value of this holding at the end of March was EUR 171.6 million and its book value in the Group's balance sheet was EUR 41.8 million.

#### ANNUAL GENERAL MEETING

The Annual General Meeting, held on 15 March 2004, decided to pay a dividend of EUR 0.75 per share. The meeting decided that the company's Board of Directors would have seven members. The following were elected to the Board: Heikki Allonen, Göran J. Ehrnrooth, Risto Hautamäki, Jaakko Iloniemi, Antti Lagerroos, Bertel Langenskiöld and Paavo Pitkänen.

The firm of authorized public accountants KPMG Wideri Oy Ab was appointed as the company's auditors. The meeting also renewed the Board's authorizations to purchase and dispose of the company's own shares.

The Board elected Antti Lagerroos as its chairman and Göran J. Ehrnrooth as the deputy chairman. The Board decided to establish an Audit Committee and a Nomination and Compensation Committee. The Board appointed Antti Lagerroos chairman of the Audit Committee and its other members Heikki Allonen, Risto Hautamäki and Paavo Pitkänen. The Board appointed Antti Lagerroos chairman of the Nomination and Compensation Committee and its other members Göran J. Ehrnrooth and Jaakko Iloniemi.

#### IMPORTANT EVENTS AFTER THE PERIOD

Wärtsilä floated two convertible subordinated debentures in 1994 which together totalled EUR 117.7 million. Of the outstanding loan, EUR 27.5 million in the end of 2003, EUR 1.0 million was converted into shares as permitted by the loans terms and conditions during the period January-March and EUR 23.6 million during 1-19.4.2004. The non-converted balance, approximately EUR 2.8 million, was repaid by the company on 3 May 2004.

| SHARES AND SHAREHOLDERS                   | 1-3/2004 | 1-3/2003 | 2003  |
|---|----------|----------|-------|
| Turnover of shares in Helsinki Exchange   | 21.5%    | 19.8%    | 41.9% |
| Turnover of votes in Helsinki Exchange    | 7.5%     | 6.6%     | 20.2% |
| Turnover of shares in SEAQ                | 2.7%     | 0.4%     | 1.9%  |
| Outside of Finland and nominee-registered | 12.7%    | 8.2%     | 8.4%  |

| SHARES 31 March 2004 | Series A    | Series B   | Total       |
|----------------------|-------------|------------|-------------|
| Number of shares     | 15,419,005  | 44,230,967 | 59,649,972  |
| Number of votes      | 154,190,050 | 44,230,967 | 198,421,017 |

#### SHARE PRICE ON THE HELSINKI EXCHANGES

| 1 January-31 March 2004 | High  | Low   | Average 1) | Amount     |
|-------------------------|-------|-------|------------|------------|
|                         | EUR   | EUR   | EUR        | traded     |
| Series A                | 19.60 | 15.27 | 17.30      | 235,190    |
| Series B                | 19.85 | 15.01 | 17.71      | 12,582,844 |

<sup>1</sup>Trading volume weighted average price.

#### MARKET CAPITALIZATION

| EUR mill. | 31 March 2004 | 31 March 2003 | 31 Dec. 2003 |
|-----------|---------------|---------------|--------------|
|           | 1,091.4       | 566.5         | 907.4        |

#### IFRS REPORTING

Wärtsilä will start IFRS reporting from the beginning of 2005. Preparations have proceeded as planned.

#### MARKET PROSPECTS

Shipyards order books remained high and large shipyards, particularly in Asia, are reaching full capacity. Most of their capacity is sold until the end of 2007. Lack of capacity, coupled with the strong increase in the steel price and the resulting rise in prices of newbuilds, could slow the intake of new orders in the coming months.

Demand for cargo vessels, notably medium-sized containerships, continued to be lively. The chemical tanker market could increase in the months ahead due to a rise in freight charges. The LNG (liquefied natural gas), LPG (liquefied petroleum gas) and car-ferry segments were strong. In the sectors of importance to Wärtsilä – cruise ships, RoPax and RoRo vessels and offshore applications – order activity has been low but signs of recovery are evident.

The Service business is aiming to broaden and deepen its service offering. Operations are focusing on deriving synergies from the Ciserv group and on increasing sales of service agreements and service products as this will offer Wärtsilä good opportunities to increase market share in two-stroke engine service.

Demand for power plants has improved worldwide and this market is expected to remain active in the near future.

Demand in Imatra Steel's market, special engineering steels, is expected to continue growing. The sharp increases in raw material prices already felt, and further expected, will keep pressure strong to raise prices.

#### GROUP PROSPECTS 2004

The order book of the Power Businesses at the end of March was approximately 20% higher than at the same time last year and a third higher than at the end of 2003.

Net sales of the Power Businesses are expected to grow slightly. Wärtsilä's forecast for its full-year result remains unchanged, i.e. profitability is expected to improve slightly compared to 2003. A risk factor that could affect this estimate is the uncertain political situation in Iraq. The EUR 130 million restructuring provision made during the fourth quarter 2003 is expected to be sufficient to cover the program.

Imatra Steel's net sales are expected to increase and its result to improve due to streamlining measures.

4 May 2004  
Wärtsilä Corporation  
Board of Directors