



# Interim Report

Expand All | Collapse All

Spare Parts for the engine 7B10

100-002 100-002 hydraulic jack for main bearing cap

| Part No | Description     | Weight | Price | Part Basket     |
|---------|-----------------|--------|-------|-----------------|
| 100038  | NUT             | 0,0    | 0     | ← ADD TO BASKET |
| 100039  | O-RING          | 0,0    | 0     | ← ADD TO BASKET |
| 100040  | FLANGE          | 2,5    | 0     | ← ADD TO BASKET |
| 100041  | O-RING          | 0,0    | 0     | ← ADD TO BASKET |
| 100042  | SUPPORTING RING | 0,0    | 0     | ← ADD TO BASKET |

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January-June 2001

# INTERIM REPORT JANUARY-JUNE 2001 WÄRTSILÄ CORPORATION

## INTERIM REPORT JANUARY-JUNE 2001

- Power Divisions net sales decreased and profitability weakened during the second quarter due to the timing of the deliveries.
- Order book at record level even though order intake was lower than last year.
- Strong growth in gas power plant orders continued.
- Ciserv acquisition extends scope of service offering.
- EUR 297 million capital gain on sale of Assa Abloy shares.
- Sanitec holding divested, sale of shares generated EUR 254 million capital gain.

### NET SALES BY DIVISION

| EUR million            | 4-6/2001 | 4-6/2000 | Change |
|------------------------|----------|----------|--------|
| Power Divisions        | 528.2    | 544.4    | -3.0%  |
| Imatra Steel           | 49.2     | 51.3     | -4.1%  |
| Other operations       | 1.8      | 2.1      |        |
| Incl. intragroup sales | -2.8     | -1.7     |        |
| Total                  | 576.4    | 596.1    | -3.3%  |

| EUR million            | 1-6/2001 | 1-6/2000 | Change | 2000    |
|------------------------|----------|----------|--------|---------|
| Power Divisions        | 969.7    | 1,024.9  | -5.4%  | 2,287.8 |
| Imatra Steel           | 104.9    | 102.3    | 2.5%   | 194.1   |
| Other operations       | 3.1      | 4.2      |        | 8.3     |
| Incl. intragroup sales | -3.9     | -3.7     |        | -7.8    |
| Ongoing operations     | 1,073.8  | 1,127.7  | -4.8%  | 2,482.4 |
| Sanitec                |          | 224.4    |        | 224.4   |
| Total                  | 1,073.8  | 1,352.1  | -20.6% | 2,706.8 |

### OPERATING PROFIT BY DIVISION

| EUR million      | 4-6/2001           | 4-6/2000 | Change |
|------------------|--------------------|----------|--------|
| Power Divisions  | 10.6               | 19.3     | -45.2% |
| Imatra Steel     | 2.9                | 5.8      | -50.5% |
| Other operations | 550.7 <sup>2</sup> | 3.3      |        |
| Total            | 564.1              | 28.4     |        |

| EUR million        | 1-6/2001           | 1-6/2000           | Change | 2000  |
|--------------------|--------------------|--------------------|--------|-------|
| Power Divisions    | 1.2 <sup>1</sup>   | 24.4               | -95.1% | 86.2  |
| Imatra Steel       | 6.2                | 10.6               | -41.8% | 17.4  |
| Other operations   | 552.8 <sup>2</sup> | 112.4 <sup>3</sup> |        | 245.6 |
| Ongoing operations | 560.2              | 147.4              |        | 349.2 |
| Sanitec            |                    | 17.9               |        | 17.9  |
| Total              | 560.2              | 165.3              |        | 367.1 |

<sup>1</sup> Includes a provision of EUR 30 million.

<sup>2</sup> Includes in total a capital gain of EUR 550.4 million on sale of Assa Abloy and Sanitec shares.

<sup>3</sup> Includes a EUR 99.1 million capital gain on sale of Assa Abloy shares.

Wärtsilä's net sales in the first six months of the year totalled EUR 1,073.8 (1,352.1) million. During the first quarter of 2000 Sanitec was still consolidated in Wärtsilä's accounts as a subsidiary. Wärtsilä posted a consolidated operating profit of EUR 560.2 (165.3) million. This figure includes altogether EUR 550.4 million in capital gain from the sale of Sanitec and Assa Abloy shares. The operating

profit in the comparable period includes Sanitec's operating profit and a capital gain on the sale of Assa Abloy shares, totalling EUR 117.0 million. Net financial items amounted to EUR -0.8 (-14.9) million and included a dividend from Sanitec totalling EUR 8.6 (0.0) million. The result before extraordinary items was EUR 559.4 (150.4) million. Extraordinary expenses, EUR 6.0 million, comprised one-time pension and life annuity payments, which are not related to the ongoing operations.

Capital expenditure, EUR 32.9 (161.6) million, was well below the level of depreciation. The Swedish service company Ciserv was acquired in June.

Pekka Ahlqvist was appointed Group Vice President, Power Plants, and a member of the Board of Management at the beginning of March.

### POWER DIVISIONS

| EUR million      | 4-6/2001 | 4-6/2000 | Change |
|------------------|----------|----------|--------|
| Net sales        | 528.2    | 544.4    | -3.0%  |
| Operating profit | 10.6     | 19.3     | -45.2% |
| % of net sales   | 2.0%     | 3.6%     |        |
| Order intake     | 549.6    | 595.0    | -7.6%  |

| EUR million      | 1-6/2001 | 1-6/2000 | Change | 2000    |
|------------------|----------|----------|--------|---------|
| Net sales        | 969.7    | 1,024.9  | -5.4%  | 2,287.8 |
| Operating profit | 1.2      | 24.4     | -95.1% | 86.2    |
| % of net sales   | 0.1%     | 2.4%     |        | 3.8%    |
| Order intake     | 1,102.2  | 1,187.9  | -7.2%  | 2,460.6 |
| Order book       | 1,803.4  | 1,576.3  | 14.4%  | 1,624.2 |

Net sales of the Power Divisions in the second quarter were lower than in the same period last year owing to the timing of deliveries, and for this reason the operating profit was only 2.0 % of net sales. The order intake, however, has remained satisfactory and the order book is thus still at a record-high level.

The operating profit for the first six months of the year, EUR 1.2 (24.4) million, includes a EUR 30 million restructuring provision. The operating profit margin before the restructuring provision was 3.2 %. The aim is to raise the operating profit margin to 7-8 % in 2003.

### Marine & Licensing

| EUR million  | 4-6/2001 | 4-6/2000 | Change |
|--------------|----------|----------|--------|
| Net sales    | 160.1    | 181.9    | -12.0% |
| Order intake | 123.2    | 224.0    | -45.0% |

| EUR million  | 1-6/2001 | 1-6/2000 | Change | 2000  |
|--------------|----------|----------|--------|-------|
| Net sales    | 272.5    | 329.0    | -17.2% | 719.7 |
| Order intake | 289.0    | 403.3    | -28.3% | 878.9 |
| Order book   | 925.3    | 810.0    | 14.2%  | 888.1 |

Marine & Licensing division's order intake, which was lower than the record level of the previous year, reflects the general slowdown in world economic growth and is in line with Wärtsilä's expectations. Wärtsilä was successful in many important segments of the market, maintaining its good mar-

ket position in passenger vessels and containerships. Overall orders in the passenger vessel sector have clearly decreased, whereas the offshore activity has shown signs of becoming more lively. Wärtsilä's product range is comprehensive and well able to respond to fluctuations in demand between different market segments.

Shipyards and shipping companies have welcomed The Ship Power Supplier concept, as is demonstrated by a number of large orders for total marine power systems.

Demand for environmentally friendly propulsion systems is growing. Wärtsilä has received several orders based on smokeless engine technology.

| Power Plants              |          |          |        |         |
|---------------------------|----------|----------|--------|---------|
| EUR million               | 4-6/2001 | 4-6/2000 | Change |         |
| Net sales                 | 165.9    | 183.9    | -9.8%  |         |
| Order intake              | 215.0    | 198.1    | 8.5%   |         |
| Order intake in MW        | 479.6    | 363.0    | 32.1%  |         |
| of which gas power plants | 228.5    | 39.9     | 472.7% |         |
| EUR million               | 1-6/2001 | 1-6/2000 | Change | 2000    |
| Net sales                 | 302.1    | 343.8    | -12.1% | 834.6   |
| Order intake              | 401.2    | 436.2    | -8.0%  | 851.0   |
| Order intake in MW        | 925.3    | 880.2    | 5.1%   | 1,929.2 |
| of which gas power plants | 355.2    | 94.5     | 275.9% | 232.0   |
| Order book                | 625.2    | 614.6    | 1.7%   | 518.5   |

The energy programmes of the USA, notably California, and Latin America continue to dominate demand for fast-track projects. These offer plenty of opportunities for Wärtsilä's multifuel power plants.

The order intake during the second quarter was higher than in the same period last year. Growth was mainly evident in gas power plants in the USA and Europe. The most important orders for heavy fuel oil power plants came from Turkey, India and Ecuador.

Wärtsilä won the largest (110 MW) gas power plant order in its history during the review period. This power plant will be supplied to Plains End in the state of Colorado, USA. Orders received in the past few months double Wärtsilä's gas engine order book in the USA.

| Service                |          |                    |        |                    |
|------------------------|----------|--------------------|--------|--------------------|
|                        | 4-6/2001 | 4-6/2000           | Change |                    |
| Net sales, EUR million | 195.9    | 169.4              | 15.6%  |                    |
|                        | 1-6/2001 | 1-6/2000           | Change | 2000               |
| Net sales, EUR million | 377.8    | 333.3              | 13.4%  | 702.0              |
| Personnel on 30 June   | 4,739    | 4,429 <sup>1</sup> | 7.0%   | 4,485 <sup>1</sup> |
| O&M agreements, MW     | 1,509    | 1,189              | 26.9%  | 1,262              |

<sup>1</sup> Proforma figures, includes 485 O&M personnel.

Net sales of the Service division grew during the second quarter in line with long-term goals. Sulzer low-speed service sales rose 25 % on the comparable period.

Electricity shortages in the USA coupled with the de-regulation of the electricity markets in Brazil and Mexico

substantially boosted the number of Operation & Maintenance (O&M) agreements for gas-fired power plants during the second quarter. The market situation will also provide further opportunities for O&M agreements in the future. India continued to be a strong market.

Wärtsilä is giving high priority in its O&M business to quality and environmental issues. Its first O&M companies have already been granted ISO quality and environmental management certificates.

The acquisition of the Swedish service company Ciserv was completed. Ciserv strengthens Wärtsilä's position as a total ship service supplier. The acquisition marks an important step for Wärtsilä as it expands its service business to include non-Wärtsilä engines as well as steam boilers and marine equipment.

#### R&D and manufacturing

The thrust of Wärtsilä's research and development is on developing the smokeless engine concept and gas engines. The smokeless EnviroEngine technology was granted a significant environmental award by Lloyd's List. Wärtsilä's continuous and focused efforts to develop new methods of reducing the environmental impact of its engines has proceeded according to plan. Another priority is to achieve a continuous improvement in engine reliability.

The environmental aspects of Wärtsilä's R&D and manufacturing operations were highlighted in the company's first Environmental Report, which was published in June. International guidelines were applied in the report.

The manufacturing load is relatively good overall although variations exist among the different factories. The company is continuously developing its ability to respond flexibly to changes in manufacturing load.

| IMATRA STEEL     |          |          |        |       |
|------------------|----------|----------|--------|-------|
| EUR million      | 4-6/2001 | 4-6/2000 | Change |       |
| Net sales        | 49.2     | 51.3     | -4.1%  |       |
| Operating profit | 2.9      | 5.8      | -50.5% |       |
| % of net sales   | 5.9%     | 11.3%    |        |       |
| EUR million      | 1-6/2001 | 1-6/2000 | Change | 2000  |
| Net sales        | 104.9    | 102.3    | 2.5%   | 194.1 |
| Operating profit | 6.2      | 10.6     | -41.8% | 17.4  |
| % of net sales   | 5.9%     | 10.4%    | 9.0%   |       |

Imatra Steel's second-quarter net sales decreased 4.1 % on the same period last year. However, net sales for the first six months of the year showed an increase of 2.5 %. The market for special engineering steels continued to weaken during the second quarter. Particularly truck production declined. The forecast decrease in Imatra Steel's delivery volumes began to be visible during the spring. Deliveries of forgings and suspension components declined compared to both the first quarter of the year and the second quarter last year. Steel deliveries, likewise, were down in the second quarter compared to the first.

# WÄRTSILÄ GROUP UNAUDITED

## INCOME STATEMENT

| EUR million                              | 1-6/2001 | 1-6/2000 | 1-6/2000<br>Proforma <sup>1</sup> | 2000     |
|--|----------|----------|-----------------------------------|----------|
| Net sales                                | 1,073.8  | 1,352.1  | 1,127.7                           | 2,706.8  |
| Other operating income                   | 561.6    | 123.9    | 112.2                             | 264.1    |
| Expenses                                 | -1,030.5 | -1,255.2 | -1,051.6                          | -2,512.7 |
| Depreciations and writedowns             | -45.1    | -58.1    | -45.0                             | -103.1   |
| Share of profits in associated companies | 0.3      | 2.6      | 4.1                               | 12.0     |
| Operating profit                         | 560.2    | 165.3    | 147.4                             | 367.1    |
| Fin income and expenses                  | -0.8     | -14.9    | -11.6                             | -31.0    |
| Profit before extr'y items               | 559.4    | 150.4    | 135.8                             | 336.1    |
| Extraordinary items                      | -6.0     |          |                                   | -20.4    |
| Profit before taxes                      | 553.4    | 150.4    | 135.8                             | 315.7    |
| Income taxes <sup>2</sup>                | -208.1   | -54.4    | -48.6                             | -96.4    |
| Minority interests                       | -1.3     | -4.1     | -0.9                              | -6.1     |
| Result for the financial period          | 344.0    | 91.9     | 86.3                              | 213.2    |

<sup>1</sup>Excl. Sanitec.

<sup>2</sup>Taxes calculated on the profit for the period.

## BALANCE SHEET

| EUR million                | 30.6.2001 | 30.6.2000 | 31.12.2000 |
|----------------------------|-----------|-----------|------------|
| Fixed assets               | 762.0     | 1,022.9   | 978.6      |
| Current assets             |           |           |            |
| Inventories                | 708.0     | 648.4     | 539.0      |
| Receivables                | 797.8     | 824.7     | 828.8      |
| Cash and bank balances     | 421.0     | 70.7      | 118.9      |
| Total                      | 2,688.8   | 2,566.7   | 2,465.3    |
| Share capital              | 189.7     | 189.7     | 189.7      |
| Other shareholder's equity | 918.2     | 603.6     | 718.4      |
| Minority interest          | 15.4      | 12.6      | 14.3       |
| Provisions                 | 136.0     | 133.1     | 109.4      |
| Long-term liabilities      | 220.1     | 420.7     | 294.5      |
| Current liabilities        | 1,209.4   | 1,207.0   | 1,139.0    |
| Total                      | 2,688.8   | 2,566.7   | 2,465.3    |

## GROSS CAPITAL EXPENDITURE

| EUR million               | 1-6/2001 | 1-6/2000 | 2000  |
|---------------------------|----------|----------|-------|
| Investments in securities |          |          |       |
| Power Divisions           | 8.1      | 1.5      | 14.1  |
| Other operations          | 0.1      | 136.8    | 137.6 |
|                           | 8.2      | 138.3    | 151.7 |
| Other investments         |          |          |       |
| Power Divisions           | 18.6     | 19.8     | 47.4  |
| Imatra Steel              | 2.7      | 3.0      | 7.7   |
| Other operations          | 3.4      | 0.5      | 0.9   |
|                           | 24.7     | 23.3     | 56.0  |
| Group                     | 32.9     | 161.6    | 207.7 |

## INTEREST BEARING LOAN CAPITAL

| EUR million             | 30.6.2001 | 30.6.2000 | 31.12.2000 |
|-------------------------|-----------|-----------|------------|
| Long-term liabilities   | 179.0     | 366.8     | 245.7      |
| Short-term liabilities  | 44.8      | 255.4     | 239.3      |
| Preferred capital notes | 117.2     | 117.2     | 117.2      |
| Loan receivables        | -86.6     | -124.2    | -86.6      |
| Cash and bank balances  | -421.0    | -70.7     | -118.9     |
| Net                     | -166.8    | 544.5     | 396.7      |

## FINANCIAL ANALYSIS

| EUR million                           | 1-6/2001 | 1-6/2000           | 2000   |
|---------------------------------------|----------|--------------------|--------|
| Net cash from operating activities    | -4.7     | 109.0              | 140.3  |
| Net cash used in investing activities | 756.0    | -41.9 <sup>1</sup> | 81.1   |
| Net cash used in financing activities | -449.1   | -106.7             | -212.8 |
| Change in liquid funds                | 302.1    | -39.6              | 8.6    |

<sup>1</sup>Change includes subtraction of Sanitec's liquid funds, EUR -30.7million.

## FINANCIAL RATIOS

|                                   | 1-6/2001 | 1-6/2000 | 2000  |
|-----------------------------------|----------|----------|-------|
| Earnings per share, EUR           | 6.43     | 1.70     | 4.20  |
| Diluted earnings per share, EUR   | 5.81     |          |       |
| Equity per share, EUR             | 18.28    | 12.47    | 14.59 |
| Solvency ratio 1, %               | 41.3     | 29.5     | 35.1  |
| Solvency ratio 2 <sup>1</sup> , % | 46.1     | 34.5     | 40.2  |
| Gearing 1                         | -0.08    | 0.97     | 0.60  |
| Gearing 2 <sup>1</sup>            | -0.18    | 0.68     | 0.40  |

<sup>1</sup>In solvency ratio 2 and gearing 2 shareholders' equity includes the convertible subordinated debentures (EUR 117.2 million).

## PERSONNEL

|                                | 1-6/2001 | 1-6/2000 | 2000   |
|--------------------------------|----------|----------|--------|
| On average                     |          |          |        |
| Power Divisions                | 9,305    | 9,002    | 9,404  |
| Imatra Steel                   | 1,264    | 1,273    | 1,281  |
| Other operations <sup>2</sup>  | 8        | 33       | 30     |
| Ongoing operations             | 10,577   | 10,308   | 10,715 |
| Sanitec <sup>1</sup>           |          | 4,170    | 2,085  |
| Group                          | 10,577   | 14,478   | 12,800 |
| Personnel at the end of period | 10,681   | 10,313   | 10,564 |

<sup>1</sup>Sanitec only Jan-March 2000.

<sup>2</sup>Wärtsilä Real Estate and Corporate Management.

## CONTINGENT LIABILITIES

| EUR million                           | 30.6.2001 | 30.6.2000 | 31.12.2000 |
|---------------------------------------|-----------|-----------|------------|
| Mortgages                             | 83.1      | 94.6      | 54.5       |
| Chattel mortgages                     | 30.3      | 9.0       | 4.2        |
| Total                                 | 113.4     | 103.6     | 58.7       |
| Guarantees and contingent liabilities |           |           |            |
| on behalf of the company              | 430.4     | 494.0     | 500.3      |
| on behalf of assoc. companies         | 0.8       | 30.5      |            |
| on behalf of others                   | 2.1       | 2.4       | 2.1        |
| Leasing obligations                   | 42.7      | 38.3      | 45.7       |
| Total                                 | 476.0     | 565.2     | 548.1      |

## NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

| EUR million                        | Total   | of which closed |
|------------------------------------|---------|-----------------|
| Interest rate swaps                | 196.8   |                 |
| Foreign exchange forward contracts | 1,292.2 | 86.6            |

If all above instruments had been sold at market prices at the end of the period, the effect would have been EUR -32.1 million.

Imatra Steel's operating profit was 5.9 % (10.4 %) of net sales. Reduced capacity utilisation raised unit costs in all units. The result was also depressed by the weakening of the Swedish krona and strengthening of the US dollar.

#### HOLDINGS

Wärtsilä continued to divest its share holdings in the first months of the year in accordance with the strategy published last year. The capital released from these divestments will be used to develop the company's core business. This also offers a possibility to distribute an extra dividend.

In June Wärtsilä sold its 46.7 % holding in Sanitec to a new company owned by the private equity fund BC Partners. The total value of the deal to Wärtsilä was EUR 419 million, generating a capital gain of EUR 254 million, or EUR 2.65 per share after taxes. Sanitec was no longer consolidated as an associated company in 2001; instead, Wärtsilä entered the EUR 8.6 million dividend paid by Sanitec under financial items.

On 14 May Wärtsilä sold 20 million Assa Abloy shares, on which the company recorded a capital gain of EUR 297 million or EUR 3.89 per share after taxes. Following this deal Wärtsilä's holding in Assa Abloy amounts to 10.7 %. The market capitalisation of this holding at the close of the reporting period was EUR 638 million and its book value in Wärtsilä's consolidated balance sheet is EUR 92 million.

Wärtsilä Real Estate sold properties and shares in housing companies for EUR 3.7 (10.6) million during the period, entering a profit of EUR 2.5 (6.9) million on these transactions. Rental income totalled EUR 2.4 (3.2) million.

#### 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 with warrants were adjusted by the amount of extra dividend. The composition of the company's Board of Directors remains unchanged. The chairman is Robert G. Ehrnrooth and the deputy chairman is Vesa Vainio. The Meeting also approved a new stock option scheme for key company employees. The Board's authorisations to purchase and dispose of the company's own shares were renewed. After the Meeting, the Board of Directors decided to purchase the company's own shares but no shares have so far been purchased.

#### SHARES

|                              | 1-6/2001 | 1-6/2000 | 2000  |
|------------------------------|----------|----------|-------|
| Trading in Helsinki, shares  | 21.6%    | 21.8%    | 33.2% |
| Trading in Helsinki, votes   | 9.6%     | 9.9%     | 16.8% |
| Trading on the SEAQ, shares  | 7.0%     | 4.5%     | 8.7%  |
| Foreign ownership on 30 June | 13.2%    | 13.0%    | 12.4% |

#### Shares on 30 June 2001

|               | A share     | B share    | Total       |
|---------------|-------------|------------|-------------|
| No. of shares | 13,935,412  | 40,266,946 | 54,202,358  |
| No. of votes  | 139,354,120 | 40,266,946 | 179,621,066 |

Wärtsilä announced on 14 June 2001 that it would exercise its right to repay the convertible subordinated debentures issued in 1994, based on the development of the share price. The condition underlying the repayment was that the share price should exceed EUR 24.03 also on the trading day preceding repayment, i.e. on 13 July 2001; this condition was not fulfilled and the repayment did not therefore take place. Nonetheless, more than half of the debentures were converted into shares regardless of the conditions for repayment. These shares, along with the other shares converted between 1 January and 16 July 2001 as well as new shares subscribed based on bond warrants were registered on 20 July 2001. The increase in the share capital was EUR 13,396,544.

#### Shares on 20 July 2001

|               | A share     | B share    | Total       |
|---------------|-------------|------------|-------------|
| No. of shares | 14,903,113  | 43,126,829 | 58,029,942  |
| No. of votes  | 149,031,130 | 43,126,829 | 192,157,959 |

#### PROSPECTS TO THE YEAR END

The short-term outlook for Marine & Licensing remains positive thanks both to the good orderbook and to several sales projects currently under preparation. However, it is difficult to predict how long the slow down in general economic situation will last or what its impact will be.

Demand for Wärtsilä's gas and multifuel power plants in North and Latin America is expected to continue to be strong during the months ahead. The European markets also offer potential demand for gas power plants but the power plant markets in Asia, Africa and the Middle East are weak.

The good orderbook of the Power Divisions and the growing service business will raise net sales in 2001. Systematic measures to raise productivity and quality will be continued in order to achieve the long-term performance target. Even though the result has been depressed by the EUR 30 million restructuring provision, the full-year result is expected to reach last year's level.

The outlook in Imatra Steel's markets to the end of the year continues to weaken, especially as regards the vehicle industry. Net sales for the full year are expected to decline and the result to weaken compared to last year.

6 August 2001

Wärtsilä Corporation  
Board of Directors



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