Interim Report

January - September 2002

INTERIM REPORT JANUARY-SEPTEMBER 2002

- Wärtsilä's net sales increased and operatin profit totalled EUR 165.0 (585.6) million. Operating profit in both years includes capital gains on sale of shares
- Order intake strengthened in early autumn
- Change in market conditions affected Power Divisions´ result
- Adjustment measures will be intensified in line with changed situation
- Integration of Wärtsilä Propulsion proceeds as planned

GROUP NET SALES BY DIVISION

MEUR	7-9/2002	7-9/2001	Change
Power Divisions	469.3	624.6	-24.9%
Imatra Steel	41.2	36.7	12.3%
Intragroup sales	-0.2	0.1	
Total	510.3	661.4	-22.9%

MEUR	1-9/2002	1-9/2001	Change	2001
Power Divisions	1,645.8	1,594.3	3.2%	2,174.3
Imatra Steel	147.9	141.5	4.5%	186.4
Intragroup sales	-1.1	-0.6		-2.0
Total	1,792.6	1,735.2	3.3%	2,358.7

GROUP OPERATING PROFIT BY DIVISION

MEUR	7-9/2002	7-9/2001	Change
Power Divisions	18.0	26.0	-30.8%
Imatra Steel	-1.9	-0.5	
Group	16.1	25.5	-36.9%

MEUR	1-9/2002	1-9/2001	Change	2001
Power Divisions	50.2	59.5	-15.7%	89.4
Imatra Steel	3.7	5.7	-35.1%	6.4
Operational EBIT	53.9	65.2	-17.4%	95.8
Power Divisions, cost provision		-30.0		-122.4
Capital gains: S'tec, A. Abloy	111.1	550.4		550.4
Group	165.0	585.6		523.9

The Group's net sales increased 3.3% to EUR 1,792.6 (1,735.2) million during the reporting period. The operating profit was EUR 165.0 (585.6) million, which included a EUR 111.1 (550.4) million capital gain on the sale of Assa Abloy shares. The previous year's operating profit included capital gains on the sale of both Sanitec and Assa Abloy shares. Operational EBIT amounted to EUR 53.9 (65.2) million. Net financial items totalled EUR -7.1 (1.3) million. The profit before extraordinary items was EUR 157.9 (586.9) million. Earnings per share (EPS) stood at EUR 1.63 (6.62).

Capital expenditure amounted to EUR 381.4 (51.9) million. This comprised EUR 330.8 (10.3) million in investments in securities and EUR 50.6 (41.6) million in production.

The largest investment was the acquisition, for EUR 323.7 million, of the propulsion systems supplier John Crane-Lips in April. This company has been consolidated since 1 April 2002. The marine engine repair and reconditioning operations of Metalock Singapore Ltd were acquired in May and consolidated from 1 August 2002. The Canadian marine repair company CGL Industries was acquired at the end of September and is consolidated from 1 October 2002. In April Wärtsilä made a public offer to the minority shareholders of Wärtsilä India Ltd to acquire the entire share capital of this company. A total of 3.5% of the shares were acquired, raising Wärtsilä's holding to 88.3%. A new offer, made on 23 September 2002, will expire on 21 December 2002.

Depreciation amounted to EUR 76.2 (67.1) million, which included EUR 16.5 (9.7) million in amortization of goodwill.

Cash reserves at the close of the period totalled EUR 145.3 (329.2) million. Net interest-bearing loan capital amounted to EUR 469.4 (-201.3) million. The solvency ratio was 36.0% (48.3) and gearing was 0.58 (-0.11).

POWER DIVISIONS

MEUR	7-9/2002	7-9/2001	Change
Net sales	469.3	624.6	-24.9%
Operating profit	18.0	26.0	-30.8%
% of net sales	3.8%	4.2%	
Order intake	498.7	384.0	29.9%

MEUR	1-9/2002	1-9/2001	Change	2001
Net sales	1,645.8	1,594.3	3.2%	2,174.3
Operational EBIT	50.2	59.5	-15.7%	89.4
Cost provision		-30.0		-122.4
Operating profit	50.2	29.5		-33.0
% of net sales	3.0%	1.9%		-1.5%
Order intake	1,353.8	1,486.2	-8.9%	2,040.4
Order book, end of period	1,371.6	1,515.2	-9.5%	1,516.5

The order intake of the Power Divisions improved during the third quarter compared to the same period last year. Net sales, however, was lower than last year owing to the slow order intake earlier in the year. The operating margin was 3.8% (4.2).

Net sales for the first nine months increased and the operating profit improved to EUR 50.2 (29.5) million, raising the operating margin to 3.0% (1.9).

Further measures were taken to improve operational efficiency. The closure of the Zwolle factory in the Netherlands decided at the end of last year, and the transfer of its manufacturing and technology operations to Italy, proceeded as planned. Certain service operations will be moved from Switzerland to the Zwolle facility, which concentrates on service. This reorganization has reduced personnel by approximately 500. Further adjustment measures are being taken throughout the Group.

The EUR 90 million cost provision entered in the fourth-quarter accounts of 2001 is expected to be sufficient to cover the costs arising from the measures which has been started.

Marine				
MEUR	7-9/2002	7-9/2001	Change	
Net sales	148.0	182.1	-18.7%	
Order intake	152.2	96.5	57.7%	
MEUR	1-9/2002	1-9/2001	Change	2001
Net sales	504.7	454.6	11.0%	595.1
Order intake	338.0	385.5	-12.3%	476.8
Order book, end of period	745.4	823.1	-9.4%	769.6

The global shipyard order book remained unchanged during the third quarter. The only increase in shipyard orders was evident in Japan, mainly due to a small increase in orders for bulk carriers. The volume of orders for containerships showed tentative signs of recovery during the reporting period. The order book for cruise and passenger ships continued to decline as few significant orders were placed worldwide.

The integration of Wärtsilä Propulsion (formerly John Crane-Lips) into the Marine Division made planned progress. Strategically important synergies will be achieved once the main propulsion system components are optimized and integrated control systems are developed for these components. Wärtsilä's goal is to create a world-leading integrated propulsion platform.

Marine's net sales increased and its order intake strengthened slightly after the summer. The order book at the end of September, EUR 745.4 million, was at virtually the same level as at the end of 2001. The main contributor was the integration of Wärtsilä Propulsion to the Group. Wärtsilä Propulsion contributed 27% of Marine's order intake, 24% of its net sales and 15% of its order book.

Power Plants				
MEUR	7-9/2002	7-9/2001	Change	
Net sales	110.0	237.2	-53.6%	
Order intake	119.7	30.9	287.4%	
Order intake, MW	219	76	188.6%	
incl. gas power plants, MW	151	9	1,576.7%	
MEUR	1-9/2002	1-9/2001	Change	2001
Net sales	500.5	539.3	-7.2%	760.6
Order intake	332.3	432.1	-23.1%	658.6
Order intake, MW	693	1,002	-30.9%	1,431
incl. gas power plants, MW	246	364	-32.4%	422
Order book, end of period	317.0	420.5	-24.6%	467.7

Investment decisions in the energy business are still being made cautiously. The oil and gas industry, on the other hand, is developing new oil and gas fields and pipelines. Wärtsilä, which is actively involved in this sector, received a significant order for gas-engine-driven oil pumping units for Turkey's section of the Baku-Tbilisi-Ceyhan crude oil pipeline.

More new orders were received during the third quarter this year than in the same period last year. Sluggish conditions during the first half of the year, however, meant that the total January-September order intake is still low compared to last year.

Besides the Turkish contract, orders for gas power plants were placed in Japan and the USA. The largest orders for heavy fuel oil (HFO) power plants came from India, Ecuador and Taiwan. Orders for biopower plants were gained in Finland and Russia.

The overall market for small power plants, a segment of central importance to Wärtsilä, diminished by 47% between June 2001 and May 2002 compared to the corresponding previous twelve-month period. Wärtsilä's share of this market rose to 8.3% (5.3). In the market for gas power plants, which declined 66%, Wärtsilä's share increased to 5.3% (2.3). Wärtsilä's share of the HFO power plant market is 46% (50).

Service				
	7-9/2002	7-9/2001	Change	
Net sales, MEUR	205.5	197.9	3.8%	
	1-9/2002	1-9/2001	Change	2001
Net sales, MEUR	612.3	575.7	6.4%	790.4
Personnel, end of period	5,501	4,915	11.9%	5,026
Long-term service agreements, MW	9,383	8,110	15.7%	8,262
O&M agreements, MW	1,922	1,631	17.8%	1,698

Net sales of the Service division continued to rise although more slowly than at the beginning of the year and remained below the long-term growth target. The volume of long-term service and operation agreements now covers more than 11,300 MW (9,700), or approximately 9% of Wärtsilä's active engine base. Of this total, the volume of O&M (Operation & Maintenance) agreements covers 1,922 MW, or more than 100 power plants around the world, representing growth of 18% during the third quarter.

Wärtsilä signed its 100th O&M agreement at the end of August. Under this agreement Wärtsilä is responsible for operation and maintenance of Hindustan Zinc Ltd's 29.7 MW power plant in India. India is a significant market for Wärtsilä and the business in the country is stable.

Wärtsilä has further strengthened its position as a total service supplier. In addition to acquiring the engine repair and reconditioning operations of Metalock Singapore Ltd in June, Wärtsilä concluded a letter of intent in September to acquire JMC Marine A/S, a Danish propulsion systems service company, and the same month also acquired CGL Industries Ltd, a Canadian company specializing in reconditioning engine components. These service companies will be renamed Ciserv.

WÄRTSILÄ GROUP UNAUDITED

INCOME STATEMENT			
MEUR	1-9/2002	1-9/2001	2001
Net sales	1,792.6	1,735.2	2,358.7
Other operating income	130.6	565.2	571.9
Expenses	-1,682.6	-1,647.9	-2,280.9
Depreciations and writedowns	-76.2	-67.1	-126.0
Share of profits in associated companies	0.6	0.3	0.1
Operating profit	165.0	585.6	523.9
Fin. income and expenses	-7.1	1.3	-15.2
Profit before extr´y items	157.9	586.9	508.7
Extraordinary items		-6.0	-6.0
Profit before taxes	157.9	580.9	502.7
Income taxes[1]	-60.7	-218.1	-194.7
Minority interests	-0.5	-1.6	-2.2
Result for the financial period	96.7	361.1	305.7

[1] Taxes calculated on the profit for the period.

BALANCE SHEET			
MEUR	30.9.2002	30.9.2001	31.12.2001
Fixed assets	1,031.5	750.8	721.4
Current assets			
Inventories	720.6	657.0	668.3
Receivables	839.7	750.5	830.7
Cash and bank balances	145.3	329.2	184.6
Total	2,737.1	2,487.4	2,405.0
Share capital	208.1	203.1	208.1
Other shareholder´s equity	723.3	922.6	863.5
Minority interest	6.7	14.6	6.4
Provisions	163.6	126.5	183.0
Long-term liabilities	388.8	195.0	183.6
Current liabilities	1,246.5	1,025.7	960.4
Total	2,737.1	2,487.4	2,405.0

GROSS CAPITAL EXPENDITURE			
MEUR	1-9/2002	1-9/2001	2001
Investments in securities and acquisitions			
Power Divisions	330.8	10.2	21.7
Imatra Steel		0.1	7.8
	330.8	10.3	29.6
Other investments			
Power Divisions	38.0	35.8	56.8
Imatra Steel	12.6	5.8	10.7
	50.6	41.6	67.5
Group	381.4	51.9	97.1

INTEREST BEARING LOAN CAPITAL			
MEUR	30.9.2002	30.9.2001	31.12.2001
Long-term liabilities	348.9	155.9	148.9
Short-term liabilities	293.0	16.6	19.3
Preferred capital notes	27.9	29.6	28.1
Loan receivables	-55.0	-74.2	-68.3
Cash and bank balances	-145.3	-329.2	-184.6
Net	469.4	-201.3	-56.5

FINANCIAL ANALYSIS			
MEUR	1-9/2002	1-9/2001	2001
Cash from operating activities	-21.1	38.3	27.6
Cash used in investing activities[1]	-253.2	635.7	504.8
Cash used in financing activities	230.6	-463.7	-466.8
Change in liquid funds	-43.7	210.3	65.7

[1]Includes taxes from capital gain on Assa Abloy and Sanitec shares.

FINANCIAL RATIOS			
	1-9/2002	1-9/2001	2001
Earnings per share, EUR	1.63	6.62	5.53
Equity per share, EUR	15.2	18.9	18.6
Solvency ratio 1, %	36.0	48.3	47.3
Solvency ratio 2[1], %	37.1	49.6	48.6
Gearing 1	0.58	-0.11	0.01
Gearing 2[1]	0.53	-0.14	-0.02

[1]In solvency ratio 2 and gearing 2 shareholders´ equity includes the convertible subordinated debentures (EUR 27.9 million).

PERSONNEL			
On average	1-9/2002	1-9/2001	2001
Power Divisions	10,155	9,466	9,562
Imatra Steel	1,402	1,264	1,284
Group	11,557	10,730	10,846
Personnel at the end of period	12,430	10,857	11,122

CONTINGENT LIABILITIES			
MEUR	30.9.2002	30.9.2001	31.12.2001
Mortgages	65.1	70.1	69.9
Chattel mortgages	41.0	26.0	41.2
Total	106.1	96.1	111.1
Guarantees and contingent liabilities			
On behalf of the company	276.4	364,2	353,4
On behalf of assoc. companies	1.1	0.8	1.1
Leasing obligations	40.1	40.6	41.9
Total	317.6	405,6	396.4

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS		
MEUR	Total	of which closed
Interest rate swaps	160.0	160.0
Purchased currency options	20.1	
Foreign exchange forward contracts	1,043.0	97.9

If all the above instruments had been sold at market prices at the end of the period, the effect would have been EUR 17,1 million.

IMATRA STEEL

MEUR	7-9/2002	7-9/2001	Change	
Net sales	41.2	36.7	12.3%	
Operating profit/loss	-1.9	-0.5		
% of net sales	-4.6%	-1.4%		
MEUR	1-9/2002	1-9/2001	Change	2001
Net sales	147.9	141.5	4.5%	186.4
Operating profit	3.7	5.7	-35.1%	6.4
% of net sales	2.5%	4.0%		3.4%

Imatra Steel's net sales between January and September increased 4.5% on the same period last year following an expansion of its forging operations. The overall market for special engineering steels continued to weaken. Imatra Steel's operating profit was 2.5% (4.0) of net sales.

The first stage of the investment programme to modernize the Imatra Steel Works' base metallurgical processes, renewal of the heavy rolling mill, was completed on schedule in August. In September negotiations were started with employee representatives at the Steel Works on reducing the number of personnel to correspond with the decrease in production and delivery volumes.

ASSA ABLOY

Wärtsilä sold 10 million Assa Abloy shares for 1,260 million Swedish krona (EUR 138 million) at the end of May, recording a capital gain of approximately EUR 111 million on the transaction. Wärtsilä will pay roughly EUR 35 million in tax on the sale.

Assa Abloy made a privileged issue of 10 million new shares. Wärtsilä's holding, taking into account the sale and new issue, decreased to 7.6% of the share capital and to 22.9% of the votes.

The market capitalization of this holding at the close of the period totalled EUR 273 million. The closing price of Assa Abloy's B-share on 30 September 2002 was SEK 90.00. The book value of the holding in Wärtsilä's consolidated balance sheet was EUR 67 million.

GENERAL MEETINGS

The Annual General Meeting on 12 March 2002 approved the distribution of a normal dividend of EUR 0.50 per share and an extra dividend of EUR 3.50 per share. The terms of the convertible subordinated debentures and the bond with warrants were changed corresponding to the amount of extra dividend. The number of members of the Board of Directors was reduced by one when Mr Christoffer Taxell announced that he would not stand for re-election. In other respects the composition of the Board remained unchanged. The meeting also approved a new share option scheme for key employees in the Group. Implementation of the scheme is conditional upon the company's achieving the minimum profitability targets set by the Board of Directors for 2003. Altogether 37 employees subscribed for options under the scheme. The Board's authorizations to repurchase and dispose of the company's own shares were renewed.

An Extraordinary General Meeting was held on 25 September 2002 to elect two new Board members, Mr Antti Lagerroos and Mr Bertel Langenskiöld. The meeting also voted to amend the Articles of Association so that the Board members´ term of office will be one year.

SHARES AND SHAREHOLDERS

During the reporting period the number of votes in Wärtsilä Corporation held by If Skadeförsäkring Holding Group rose above 5% and Sampo plc´s holding of Wärtsilä's shares and votes decreased below 5%.

SHARES	1-9/2002	1-9/2001	2001
Trading in Helsinki, shares	25.3%	27.0%	35.4%
Trading in Helsinki, votes	10.9%	13.8%	19.9%
Trading on the SEAQ, shares	10.1%	8.3%	10.5%
Foreign ownership, end of period	11.2%	13.3%	10.5%

Shares on 30 Sept. 2002	A share	B share	Total
No. of shares	15,414,429	44,039,431	59,453,860
No. of votes	154,144,290	44,039,431	198,183,721

PROSPECTS

Power Divisions

The volume of global shipyard orders began to rise slightly at the end of the first half of the year and Wärtsilä Marine's order intake picked up somewhat as well, although it remains lower than expected. The power plant market continues to be unsettled and investment decisions are being postponed. Wärtsilä is involved in several power plant projects, they are not expected to affect this year's net sales and result. The Service business continues to grow, although more slowly than expected owing to market conditions. Net sales of the Power Divisions is expected to increase this year as a result of acquisitions.

The change in market conditions will affect both Wärtsilä Power Divisions profitability this year and the timetable for reaching the long-term profitability targets. Operational profitability this year will remain below last year's level of 4%. Reaching the 7-8% profitability target set for Power Divisions will require global economic recovery leading to significant growth in demand. The programme of streamlining measures will be accelerated and further action will be taken to adjust to the decrease in production volyme. The company will, however, reach this profitability target only after 2003.

Imatra Steel

The market outlook for Imatra Steel continues to be uncertain. Net sales is forecast to grow as a result of growth in the forging business. The result will remain below last year's level due to a decline in demand for special engineering steels.

29 October 2002

Wärtsilä Corporation
Board of Directors

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