Interim Report

JANUARY-SEPTEMBER 2003

INTERIM REPORT JANUARY – SEPTEMBER 2003
POWER DIVISIONS' ORDER INTAKE IMPROVED

- Order intake of Power Divisions increased
- Clear improvement in operating profit during July-September
- Consultations on personnel reductions started in France
- Streamlining of operations continues

WÄRTSILÄ GROUP IN BRIEF

EUR million	7-9/2003	7-9/2002	1-9/2003	1-9/2002	2002
Net sales	608.7	510.3	1,635.4	1,792.6	2,519.0
Operational EBITA[1]	32.8	22.7	67.3	70.0	100.6
Operational EBIT	26.1	16.1	47.2	53.9	77.8
Operating profit	26.1	16.1	47.2	165.0	188.9
Profit before taxes	19.3	10.5	34.9	157.9	170.4
Earnings per share, EUR	0.27	0.05	0.40	1.63	2.05

[1] EBITA is the operating profit before amortization of goodwill on consolidation

The first phase of Wärtsilä's business analysis, the aim of which is to significantly improve the company's profitability was completed in early September. It was decided that the Group's focus areas will be ship power systems and service. Manufacture of ship engines and propellers will be started in the growing Chinese shipbuilding market. Wärtsilä's Power Plants division will concentrate on competitive products.

At the Mulhouse facility in France, measures to cease manufacture of the Wärtsilä 200 and 220SG engines and consultations on personnel reductions have been started. Streamlining of the Group's power plant business is under way. In view of the above mentioned changes there will be a reduction of between 400 and 500 employees worldwide.

The business analysis process will continue and is expected to result in further reductions in capacity. A EUR 75-150 million restructuring provision will be entered in the fourth-quarter accounts. The Power Divisions will achieve its 7-8% operating margin target by the end of 2005.

Wärtsilä signed an agreement in June under which the assets and operations of its Billnäs Spring Works were sold to Styria Group on 31 July 2003. The impact of this divestment after the writedown entered in the first quarter is profit-neutral.

Wärtsilä sold its holding in Polar in October. This generated a capital gain of EUR 15 million which will be entered in the fourth-quarter accounts. This deal still requires the approval of the competition authorities.

NET SALES BY DIVISION

EUR million	7-9/2003	7-9/2002	Change	
Power Divisions	568.4	469.3	21.1%	
Imatra Steel	40.6	41.2	–1.5%	
Intragroup sales	–0.3	–0.2		
Group	608.7	510.3	19.3%	
EUR million	**1-9/2003**	**1-9/2002**	**Change**	**2002**
Power Divisions	1,484.9	1,645.8	–9.8%	2,319.9
Imatra Steel	151.1	147.9	2.2%	200.4
Intragroup sales	–0.6	–1.1		–1.3
Group	1,635.4	1,792.6	–8.8%	2,519.0

OPERATING PROFIT BY DIVISION

EUR million	7-9/2003	7-9/2002	Change	
Power Divisions	26.9	18.0	49.6%	
Imatra Steel	–0.8	–1.9		
Operational EBIT	26.1	16.1	62.0%	
EUR million	**1-9/2003**	**1-9/2002**	**Change**	**2002**
Power Divisions	49.2	50.2	–2.1%	74.6
Imatra Steel	–1.9	3.7		3.2
Operational EBIT	47.2	53.9	–12.4%	77.8
Capital gains (Assa Abloy)		111.1		111.1
Group operating profit	47.2	165.0	–71.4%	188.9

Wärtsilä's consolidated nine-month net sales decreased 8.8% owing to the low order intake during 2002. The operating profit was EUR 47.2 (165.0) million. Last year's figure included a EUR 111.1 million capital gain on the sale of Assa Abloy shares.

The nine-month operating profit of the Power Divisions was EUR 49.2 (50.2) million. The July-September operating profit was a distinct improvement on last year's figure and totalled EUR 26.9 (18.0) million. Imatra Steel's result of operations, an operating loss of EUR -1.9 million, was burdened by a EUR 4.5 million writedown on fixed assets during the first quarter.

Net financial items in the first nine months of the year amounted to EUR -12.3 (-7.1) million. The Group's profit before taxes was EUR 34.9 (157.9) million. Earnings per share (EPS) were EUR 0.40 (1.63). The order intake of the Power Divisions increased 22.5% to EUR 1,658.1 (1,353.8) million.

The Group's cash flow from operating activities was strong EUR 62.6 (-21.1) million. Cash reserves at the end of the period totalled EUR 109.1 (145.3) million. Net interest-bearing loan capital was EUR 464.6 (469.4) million. The solvency ratio was 37.3% (36.0) and gearing was 0.58 (0.58).

Capital expenditure between January and September, amounting to EUR 41.7 (381.4) million, included the acquisition of the Dutch company Caltax Marine Diesel BV during the first quarter. Depreciation was EUR 81.6 (76.2) million, which included EUR 20.1 (16.1) million in amortization of goodwill on consolidation.

POWER DIVISIONS

EUR million	7-9/2003	7-9/2002	Change	
Net sales	568.4	469.3	21.1%	
Operating profit	26.9	18.0	49.6%	
% of net sales	4.7%	3.8%		
Order intake	555.8	498.7	11.4%	
EUR million	**1-9/2003**	**1-9/2002**	**Change**	**2002**
Net sales	1,484.9	1,645.8	–9.8%	2,319.9
Operating profit	49.2	50.2	–2.1%	74.6
% of net sales	3.3%	3.0%		3.2%
Order intake	1,658.1	1,353.8	22.5%	1,882.8
Order book at end of period	1,405.1	1,371.6	2.4%	1,206.6

The January-September operating margin of the Power Divisions was 3.3% (3.0). The third-quarter operating margin improved to 4.7% (3.8). The intake of new orders exceeded last year's level by 22.5%. The order book was slightly higher than one year ago and a clear improvement on the situation at the end of 2002.

Restructuring measures were continued in the Power Divisions. The closure of the factory in the Netherlands was completed early in the year and its production operations transferred to Italy. Consultations in France were concluded during the second quarter on the reduction of roughly 130 employees. In the third quarter it was decided to start consultations aimed at ceasing engine manufacture at Mulhouse in France.

Wärtsilä and Volvo Penta reached agreement in August that Wärtsilä will start servicing and selling large Volvo Penta engines for commercial shipping applications.

MARINE				
EUR million	7-9/2003	7-9/2002	Change	
Net sales	194.4	148.0	31.3%	
Order intake	127.5	152.2	–16.3%	
EUR million	1-9/2003[1]	1-9/2002	Change	2002[1]
Net sales	509.5	504.7[2]	1.0%	772.9
Order intake	487.6	338.0[2]	44.3%	522.8
Order book at end of period	640.5	745.4	–14.1%	662.6

[1]Includes license sales
[2]Includes Wärtsilä Propulsion for six months

The nine-month net sales of the Marine division improved slightly. Third-quarter net sales rose 31.3% to EUR 194.4 (148.0) million. The order intake for the full reporting period increased but the order intake between July and September was clearly lower than in the same period last year since most new orders were for 2-stroke engines manufactured under license. The order book at the end of September stood at EUR 640.5 million, or 14% lower than one year earlier. Sales of propellers and seals developed well.

Demand remained strong in the markets for large tankers, containerships, bulk carriers and LNG carriers. Underlying this trend were lively activity in freight traffic, the need for ship modernizations and preparations in anticipation of new IMO regulations. This indicates that these market segments will remain strong and that orders for other types of vessel could pick up as well.

In the application areas important to Wärtsilä's manufacturing programme, however, order activity was at a lower level. Only two new orders for cruise ships have been placed this year. Twenty Wärtsilä 32 auxiliary engines will be supplied for five containerships to be built in China. Wärtsilä will also supply bow thrusters for six Argentinian offshore support vessels. In the market for auxiliary engines competition on prices is extremely intense in Asia.

Several orders for Sulzer engines manufactured under license were placed between July and September. Sulzer main engines have been ordered for 10 containerships to be built for Taiwan and for two large tankers to be built for India. The bulk carrier market continued to grow strongly in September; Sulzer main engines will be installed in 11 of the total 20 such vessels ordered.

POWER PLANTS				
EUR million	7-9/2003	7-9/2002	Change	
Net sales	153.7	110.0	39.7%	
Order intake	203.7	119.7	70.1%	
Order intake, MW				
Heavy fuel oil	484	68	607.9%	
Gas	75	151	–50.2%	
BioPower, MWth	0	10		
EUR million	1-9/2003	1-9/2002	Change	2002
Net sales	316.3	500.5	–36.8%	666.0
Order intake	504.6	332.3	51.9%	427.9
Order intake, MW				
Heavy fuel oil	1,017	447	127.6%	539
Gas	158	246	–35.8%	293
BioPower, MW_{th}	128	55	135.6%	107
Order book at end of period	462.9	317.0	46.0%	255.2

The Power Plants division's order intake between July and September showed a clear increase compared to the same period last year. The order book at the close of the period was EUR 462.9 million, exceeding last year's figure by 46.0% and also significantly higher than at the end of 2002.

The largest orders for power plants received in the third quarter were placed in Central America and Asia. The power plant ordered in Honduras in August marked the largest in terms of output in Wärtsilä's history. The American and Asian markets are also expected to stay active in the short term.

SERVICE				
	7-9/2003	7-9/2002	Change	
Net sales, EUR million	218.7	205.5	6.4%	
	1-9/2003	1-9/2002	Change	2002
Net sales, EUR million	653.3	612.3	6.7%	843.4
Personnel at 30 Sept.	5,938	5,501	8.0%	5,644
Long-term service agreements, MW	9,780	9,383	4.2%	9,756
O&M (operation and maintenance) agreements, MW	2,215	1,922	15.2%	2,056

Net sales of the Service division continued to rise but fell short of the long-term growth target. Third-quarter growth was 6.4%. The main reason behind the slower pace of growth was the weakening of the US dollar against the euro.

The volume of long-term service and operation and maintenance agreements (O&M) covers 12,000 MW, or more than 9% of Wärtsilä's total active installed engine base (130,000 MW). The volume of long-term service agreements rose 4.2% to 9,780 MW compared to the same period last year. Operation and maintenance agreements cover 2,215 MW or 128 power plants around the world, an increase of 15.2%. Wärtsilä signed its first O&M agreement in Indonesia during the period. India continues to be a strong market.

IMATRA STEEL				
EUR million	7-9/2003	7-9/2002	Change	
Net sales	40.6	41.2	–1.5%	
Operating loss	–0.8	–1.9		
% of net sales	–2.1%	–4.6%		
EUR million	1-9/2003	1-9/2002	Change	2002
Net sales	151.1	147.9	2.2%	200.4
Operating loss/profit	–1.9	3.7		3.2
% of net sales	–1.3%	2.5%		1.6%

Imatra Steel's net sales rose 2.2% between January and September. Comparable net sales between July and September, excluding the spring business, increased 5.1%. All in all, demand in the special engineering steels sector remained unchanged.

Imatra Steel showed an operating loss of EUR -0.8 (-1.9) million between July and September. In addition to the costs arising from maintenance stoppages during the summer, the result was especially affected by the fact that the company was still unable to transfer the sharply increased raw material and energy costs to its product prices to a sufficient degree.

Imatra Steel Works' modernization investments of the base metallurgical line - the bloom caster and the bloom reheating furnace were brought on stream as planned in August.

WÄRTSILÄ GROUP UNAUDITED

INCOME STATEMENT			
EUR million	1-9/2003	1-9/2002	2002
Net Sales	1,635.4	1,792.6	2,519.0
Other operating income	17.1	130.6	138.3
Expenses	–1,523.4	–1,682.6	–2,363.5
Depreciations and writedowns	–81.6	–76.2	–105.4
Share of profits/losses in associated companies	–0.3	0.6	0.4
Operating profit	47.2	165.0	188.9
Financial income and expenses	–12.3	–7.1	–18.5
Result before taxes	34.9	157.9	170.4
Income taxes[1]	–10.5	–60.7	–47.6
Minority interests	–0.4	–0.5	–1.0
Result for the financial period	24.0	96.7	121.9

[1]Taxes calculated on the result for the period

BALANCE SHEET			
EUR million	30.9.2003	30.9.2002	31.12.2002
Fixed assets	949.4	1,031.5	1,018.7
Current assets			
Inventories	619.5	720.6	628.1
Receivables	778.6	839.7	852.3
Cash and bank balances	109.1	145.3	185.8
Total	2,456.6	2,737.1	2,685.0
Share capital	208.7	208.1	208.1
Other shareholders' equity	661.7	723.3	744.9
Minority interests	6.2	6.7	6.5
Provisions	122.0	163.6	154.0
Long-term liabilities	239.0	388.8	322.7
Current liabilities	1,219.0	1,246.5	1,248.8
Total	2,456.6	2,737.1	2,685.0

GROSS CAPITAL EXPENDITURE			
EUR million	1-9/2003	1-9/2002	2002
Investments in securities and acquisitions			
Power Divisions	1.2	330.8	348.6
Other investments			
Power Divisions	31.3	38.0	58.7
Imatra Steel	9.2	12.6	16.0
	40.5	50.6	74.7
Group	41.7	381.4	423.3

INTEREST-BEARING LOAN CAPITAL			
EUR million	30.9.2003	30.9.2002	31.12.2002
Long-term liabilities	197.9	348.9	281.2
Current liabilities	374.9	293.0	343.1
Convertible subordinated debentures	27.9	27.9	27.9
Loan receivables	–26.9	–55.0	–35.7
Cash and bank balances	–109.1	–145.3	–185.8
Net	464.6	469.4	430.6

FINANCIAL RATIOS			
	1-9/2003	1-9/2002	2002
Earnings/share, EUR	0.40	1.63	2.05
Shareholders' equity/share, EUR	14.13	15.20	15.56
Solvency ratio 1, %	37.3	36.0	36.9
Solvency ratio 2[1], %	38.6	37.1	38.0
Gearing 1	0.58	0.58	0.50
Gearing 2[1]	0.53	0.53	0.46

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

FINANCIAL ANALYSIS			
EUR million	1-9/2003	1-9/2002	2002
Cash flow from operating activities:			
Operating profit	47.2	165.0	188.9
Depreciation and writedowns	81.6	76.2	105.4
Selling profit and loss of fixed assets and other adjustments	–6.8	–113.3	–113.0
Changes in working capital	–15.8	–104.0	–69.0
Cash flow from operating activities before financial items and taxes	106.1	23.9	112.3
Net financial expenses and paid income tax	–43.5	–45.0	–56.9
Cash flow from operating activities (A)	62.6	-21.1	55.4
Cash flow from investing activities:			
Net investments in tangible and intangible assets	–31.0	–47.3	–56.0
Investments in shares and acquisitions	–1.2	–330.7	–354.7
Proceeds from sale of shares after taxes	8.3	121.8	119.2
Cashflow from other investing activities	10.9	3.0	5.2
Cash flow from investing activities (B)	–13.0	–253.2	–286.5
Cash flow from financing activities:			
Issuance of share capital and premium	1.0		
New long-term loans	181.4	454.9	472.0
Amortisation of long-term loans	–303.1	–240.7	–276.1
Paid dividends	–104.3	–238.6	–238.6
Changes in short term loans and other financing activities	98.7	259.4	275.1
Cash flow from financing activities (C)	–126.3	235.0	232.3
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	–76.7	–39.3	1.3
Liquid funds at beginning of period	185.8	184.6	184.6
Liquid funds at end of period	109.1	145.3	185.8

PERSONNEL			
On average	1-9/2003	1-9/2002	2002
Power Divisions	10,972	10,155	11,024
Imatra Steel	1,349	1,402	1,393
Group	12,321	11,557	12,417
Personnel, at the end of the period	12,154	12,430	12,459

CONTINGENT LIABILITIES			
EUR million	30.9.2003	30.9.2002	31.12.2002
Mortgages	52.1	65.1	64.7
Chattel mortgages	34.6	41.0	41.9
Total	86.7	106.1	106.6
Guarantees and contingent liabilities			
on behalf of Group companies	253.2	276.4	243.9
on behalf of associated companies	1.1	1.1	1.1
Leasing obligations	40.2	40.1	45.7
Total	294.5	317.6	290.7

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS		
EUR million	Total	of which closed
Interest rate swaps	250.0	160.0
Foreign exchange forward contracts	893.1	100.1
Currency options, purchased	26.4	

If all the above instruments were sold at market prices at the end of the period, the effect would have been EUR 21,7 million.

HOLDING IN ASSA ABLOY

Wärtsilä holds 27.8 million shares in Assa Abloy, or 7.6% of the total. The market value of this holding at the close of the period was EUR 211.1 million and its book value in the consolidated balance sheet was EUR 67.4 million.

GENERAL MEETING

Wärtsilä's Annual General Meeting, held on 12 March 2003, decided to pay a normal dividend of EUR 0.25 per share and an extra dividend of EUR 1.50 per share. The terms of the convertible subordinated debentures and the bond with warrants were changed corresponding to the amount of the extra dividend. The AGM confirmed the number of members of the Board of Directors to be six. Göran J. Ehrnrooth, Risto Hautamäki, Jaakko Iloniemi, Antti Lagerroos, Bertel Langenskiöld and Paavo Pitkänen were elected to the Board.

Authorized Public Accountants KPMG Wideri Oy Ab were 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 also appointed the members of the Audit Committee: Antti Lagerroos, Göran J. Ehrnrooth and Paavo Pitkänen.

SHARES AND SHAREHOLDERS

	1-9/2003	1-9/2002	2002
Trading in Helsinki, shares	33.8%	25.3%	43.4%
Trading in Helsinki, votes	15.1%	10.9%	19.9%
Trading on the SEAQ, shares	1.1%	10.1%	11.1%
Foreign ownership at 30 Sept.	8.1%	11.2%	8.8%

SHARES AT 30 Sept. 2003	A share	B share	Total
No. of shares	15,415,855	44,202,057	59,617,912
No. of votes	154,158,550	44,202,057	198,360,607

SHARE PRICE ON THE HELSINKI EXCHANGES
1 January – 30 September 2003

	Highest EUR	Lowest	Average[1]	No. traded
A share	13.69	10.00	12.00	1,094,729
B share	13.25	9.20	11.20	19,062,094

[1]Trading volume weighted average price.

MARKET CONDITIONS AND PROSPECTS 2003

The intake of marine orders is expected to grow during the fourth quarter.

The Power Plants division's order intake between July and September was substantially boosted by large single orders but this does not yet indicate a clear change in the general market situation. The unfavourable exchange rate continues to create uncertainty although there are already signs that demand is starting to pick up.

Acquisitions will focus on broadening and deepening the company's service capabilities as this will offer Wärtsilä good opportunities to increase its share of the market for 2-stroke engine service. Business operations will focus on levering the synergies offered by the Ciserv group and increasing sales of service contracts and service products.

Excluding restructuring costs, the net sales and operational profitability of the Power Divisions are expected to be at last year's levels. Streamlining measures will be continued and once the plans and evaluations are completed a EUR 75-150 million restructuring provision will be entered in the fourth quarter that will burden the Power Divisions' result for 2003.

The market outlook in Imatra Steel's business is expected to continue unchanged during the final quarter. However, Imatra Steel's net sales are expected to increase and its operational result to improve due to streamlining measures.

28 October 2003

Wärtsilä Corporation
Board of Directors

October 2003

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