



# INTERIM REPORT JANUARY-SEPTEMBER 2001 WÄRTSILÄ CORPORATION

## HIGHLIGHTS JANUARY - SEPTEMBER 2001

- Third-quarter profit before extraordinary items was EUR 27.5 million, nine-month profit more than doubled to EUR 586.9 (285.2) million.
- Power Divisions' net sales up 12% in July-September. At the same time Power Divisions' operating profit improved 31% to EUR 29.3 million, or 4.7% of net sales.
- Sermet acquisition adds bio fuelled power plants to product range and strengthens Wärtsilä's position as supplier of decentralised power solutions.
- Order intake slowed down, business operations reflect general economic climate.

### NET SALES BY DIVISION

EUR million	7-9/2001	7-9/2000	Change
Power Divisions	624.6	558.2	11.9%
Imatra Steel	36.7	39.6	-7.3%
Other operations	1.9	2.0	
Incl. intragroup sales	-1.7	-1.9	
Total	661.4	597.9	10.6%

EUR million	1-9/2001	1-9/2000	Change	2000
Power Divisions	1,594.3	1,583.1	0.7%	2,287.8
Imatra Steel	141.5	141.9	-0.3%	194.1
Other operations	5.0	6.2		8.3
Incl. intragroup sales	-5.6	-5.6		-7.8
Ongoing operations	1,735.2	1,725.6	0.6%	2,482.4
Sanitec		224.4		224.4
Total	1,735.2	1,950.0	-11.0%	2,706.8

### OPERATING PROFIT BY DIVISION

EUR million	7-9/2001	7-9/2000	Change
Power Divisions	29.3	22.4	30.8%
Imatra Steel	-0.5	0.3	
Other operations	-3.3	4.3	
Operational EBIT	25.5	27.0	-5.4%
Capital gains Assa Abloy		126.4	
Total	25.5	153.4	-83.4%

EUR million	1-9/2001	1-9/2000	Change	2000
Power Divisions	<sup>1</sup> 30.6	46.8	-34.6%	86.2
Imatra Steel	5.7	10.8	-47.2%	17.4
Other operations	-1.1	9.6		7.8
Operational EBIT	35.2	67.2	-47.6%	111.4
Capital gains				
Sanitec, Assa Abloy	550.4	225.4	144.2%	225.4
Sanitec		26.0		30.3
Total	585.6	318.6	83.8%	367.1

<sup>1</sup> Includes EUR 30 million cost provision.

Wärtsilä's net sales in the first nine months of the year totalled EUR 1,735.2 (1,950.0) million. During the first quarter last year Sanitec was consolidated as a subsidiary. Wärtsilä recorded a consolidated operating profit of EUR 585.6 (318.6) million. Net financial items amounted to EUR 1.3 (-33.4) million and included a dividend from Sanitec totalling EUR 8.6 (0.0) million. The improvement in net financial items was the result of better liquidity arising from large capital gains. The profit before extraordinary items was EUR 586.9 (285.2) million. Extraordinary expenses,

EUR 6.0 million, comprised one-time pension and life annuity payments unrelated to ongoing operations.

Capital expenditure, EUR 51.9 (184.9) million, was well below the level of depreciation. The Swedish service company Ciserv was acquired in June. Sermet Oy, a company specialising in biofuel-fired power plants, was acquired in October.

Mr Pekka Ahlqvist was appointed Group Vice President, Power Plants and a member of Wärtsilä's Board of Management on 1 March.

### POWER DIVISIONS

EUR million	7-9/2001	7-9/2000	Change
Net sales	624.6	558.2	11.9%
Operating profit	29.3	22.4	30.8%
% of net sales	4.7%	4.0%	
Order intake	384.0	507.8	-24.4%

EUR million	1-9/2001	1-9/2000	Change	2000
Net sales	1,594.3	1,583.1	0.7%	2,287.8
Operating profit	30.6	46.8	-34.6%	86.2
% of net sales	1.9%	3.0%		3.8%
Order intake	1,486.2	1,695.7	-12.4%	2,460.6
Order book	1,515.2	1,564.7	-3.2%	1,624.2

Net sales of the Power Divisions in the third quarter increased clearly on the same period last year and the operating profit rose to 4.7%. However, the intake of new orders slowed down appreciably during the quarter.

The nine-month operating profit, EUR 30.6 (46.8) million, includes a EUR 30 million restructuring provision decided on during the spring. The operating profit margin before the restructuring provision was 3.8%. The cost savings arising from the restructuring measures are expected to materialise from the beginning of 2002. Measures to raise efficiency and quality will be continued and the aim is to increase the operating profit margin to 7-8% in 2003.

### Marine & Licensing

EUR million	7-9/2001	7-9/2000	Change
Net sales	182.1	186.3	-2.3%
Order intake	96.5	218.1	-55.8%

EUR million	1-9/2001	1-9/2000	Change	2000
Net sales	454.6	515.3	-11.8%	719.7
Order intake	385.5	621.4	-38.0%	878.9
Order book	823.1	841.0	-2.1%	888.1

Marine & Licensing division's order intake has declined clearly compared to last year's record-high level, which included an exceptional number of cruise ship orders. These deliveries extend through to 2004. The decline reflects the general slowdown in world economic growth. In the tighter market conditions Wärtsilä has maintained its good position in the most important segments of the market. The order book is at a good level owing to last year's good order intake.

The offshore business has become more lively and this is expected to partially counterbalance the decline in other

market segments, notably cruise ships. Offshore customers have shown particular interest in dual-fuel engines, which represent entirely new technology in the marine sector. Wärtsilä has received orders for dual-fuel engines for two offshore supply vessels, and several more projects are in progress.

The Ship Power Supplier concept showed further positive development, demonstrated by a continuous increase in demand and orders for new marine power systems.

Demand for environmentally friendly propulsion systems is rising. Growth was seen especially in the order book for Sulzer low-speed engines based on smokeless engine technology.

Power Plants				
EUR million	7-9/2001	7-9/2000	Change	
Net sales	237.2	194.1	22.2%	
Order intake	30.9	108.7	-71.6%	
Order intake MW	76	296	-74.1%	
of which gas plants	9	19	-55.5%	
EUR million	1-9/2001	1-9/2000	Change	2000
Net sales	539.3	537.9	0.3%	834.6
Order intake	432.1	544.8	-20.7%	851.0
Order intake MW	1,002	1,176	-14.8%	1,929
of which gas plants	364	114	220%	232
Order book	420.5	539.4	-22.0%	518.5

Net sales of the Power Plants division increased clearly during the third quarter. The order intake slowed down significantly between July and September but remains satisfactory for the whole period. The uncertain economic conditions have lengthened the decision-making process among customers.

Orders received between July and September mainly comprised heavy fuel oil (HFO) power plants to India and gas power plants to the USA. The intake of orders for gas power plants has been strong throughout the reporting period and more than three times higher than in the same period last year.

Wärtsilä is expanding its range of power plant products to include bio fuelled power plants, thus strengthening its position as a provider of decentralised power solutions. In October Wärtsilä acquired the Finnish company Sermet, which specialises in small and medium-size boiler plants running on biofuels, oil and gas. Sermet's net sales this year will total approximately EUR 20 million and its operating profit is on a good level. Sermet will be consolidated within Wärtsilä's Power Plants division from 17 October 2001.

The overall market for power plants driven by HFO reciprocating engines and gas turbines totalled 2,226 MW between 1 June 2000 and 31 May 2001, according to statistics released by the industry magazine Diesel & Gas Turbine Worldwide. This represented growth of 3% on the previous year. Wärtsilä's market share was 50% (58%). The market for small gas power plants (unit output 1-60 MW) increased to 17,264 MW (+34%). Wärtsilä's share of this segment was 398 (281) MW (+42%).

Service				
	7-9/2001	7-9/2000	Change	
Net sales, EUR million	197.9	171.9	15.1%	
	1-9/2001	1-9/2000	Change	2000
Net sales, EUR million	575.7	505.2	14.0%	702.0
Personnel on 30 Sept.	4,915	<sup>1</sup> 4,465	10.1%	<sup>1</sup> 4,485
O&M agreements, MW	1,631	1,239	31.6%	1,262

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

Net sales of the Service division grew during the third quarter in line with long-term goals. The volume of O&M (Operation & Maintenance) agreements increased 31.6% on the comparable period, the largest markets being the Dominican Republic and India.

The successful gas conversion of an old HFO power plant belonging to a textile factory in Portugal marked an important breakthrough for Wärtsilä since other industrial sectors are expected to yield similar projects in the future. This development has been made possible by the better availability of natural gas in power production. The emission levels of the converted power plant are clearly lower than before and its efficiency is higher.

The acquisition of the Swedish service company Ciserv was completed in June, strengthening Wärtsilä's position as the total service supplier and broadening Wärtsilä's service product range.

#### R&D and manufacturing

Wärtsilä has continued its systematic drive to raise the competitive efficiency of its products. Wärtsilä's efforts to reduce the environmental impact of its products and operations were reported in the company's first environmental report. This report also gained significant recognition when it was judged the best such report in Finland.

Gas engine development was continued, with a particular emphasis on dual-fuel engines. Smokeless engines based on Wärtsilä's EnviroEngine technology have been highly successful.

The manufacturing load remained relatively good. The lower order book will weaken the manufacturing load at the end of the year. The company is continuously developing its ability to respond flexibly to changes in manufacturing load, but the declining demand also requires new measures to adjust to the situation.

IMATRA STEEL				
EUR million	7-9/2001	7-9/2000	Change	
Net sales	36.7	39.6	-7.3%	
Operating profit/loss	-0.5	0.3		
% of net sales	-1.4%	0.8%		
EUR million	1-9/2001	1-9/2000	Change	2000
Net sales	141.5	141.9	-0.3%	194.1
Operating profit	5.7	10.8	-47.2%	17.4
% of net sales	4.0%	7.6%		9.0%

# WÄRTSILÄ GROUP UNAUDITED

## INCOME STATEMENT

EUR million	1-9/2001	1-9/2000	1-9/2000 Proforma <sup>1)</sup>	2000
Net sales	1,735.2	1,950.0	1,725.6	2,706.8
Other operating income	565.2	253.6	241.9	264.1
Expenses	-1,647.9	-1,811.6	-1,608.0	-2,512.7
Depreciations and writedowns	-67.1	-80.9	-67.8	-103.1
Share of profits in associated companies	0.3	7.5	0.9	12.0
Operating profit	585.6	318.6	292.6	367.1
Fin. income and expenses	1.3	-33.4	-30.1	-31.0
Profit before extr'y items	586.9	285.2	262.5	336.1
Extraordinary items	-6.0			-20.4
Profit before taxes	580.9	285.2	262.5	315.7
Income taxes 2	-218.1	-88.7	-82.9	-96.4
Minority interests	-1.6	-5.2	-2.0	-6.1
Result for the financial period	361.1	191.3	177.6	213.2

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

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

## BALANCE SHEET

EUR million	30.9.2001	30.9.2000	31.12.2000
Fixed assets	750.8	1,015.7	978.6
Current assets			
Inventories	657.0	656.6	539.0
Receivables	750.5	821.9	828.8
Cash and bank balances	329.2	155.1	118.9
Total	2,487.4	2,649.3	2,465.3
Share capital	203.1	189.7	189.7
Other shareholder's equity	922.6	702.9	718.4
Minority interest	14.6	14.6	14.3
Provisions	126.5	128.3	109.4
Long-term liabilities	195.0	398.8	294.5
Current liabilities	1,025.7	1,215.0	1,139.0
Total	2,487.4	2,649.3	2,465.3

## GROSS CAPITAL EXPENDITURE

EUR million	1-9/2001	1-9/2000	2000
Investments in securities			
Power Divisions	10.2	11.9	14.1
Other operations	0.1	137.0	137.6
	10.3	148.9	151.7
Other investments			
Power Divisions	29.4	30.0	47.4
Imatra Steel	5.8	5.3	7.7
Other operations	6.4	0.7	0.9
	41.6	36.0	56.0
Group	51.9	184.9	207.7

## INTEREST BEARING LOAN CAPITAL

EUR million	30.9.2001	30.9.2000	31.12.2000
Long-term liabilities	155.9	348.3	245.7
Short-term liabilities	16.6	207.6	239.3
Preferred capital notes	29.6	117.2	117.2
Loan receivables	-74.2	-89.7	-86.6
Cash and bank balances	-329.2	-155.1	-118.9
Net	-201.3	428.4	396.7

## FINANCIAL ANALYSIS

EUR million	1-9/2001	1-9/2000	2000
Net cash from operating activities	38.3	137.0	208.8
Net cash used in investing activities <sup>2)</sup>	635.7	<sup>1)</sup> 60.5	12.6
Net cash used in financing activities	-463.7	-152.8	-212.8
Change in liquid funds	210.3	44.7	8.6

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

<sup>2)</sup> Includes taxes for Assa Abloy and Sanitec capital gains.

## FINANCIAL RATIOS

	1-9/2001	1-9/2000	2000
Earnings per share, EUR	6.62	3.53	4.20
Equity per share, EUR	18.89	14.31	14.59
Solvency ratio 1, %	48.3	32.4	35.1
Solvency ratio 2 <sup>1)</sup> %	49.6	37.2	40.2
Gearing 1	-0.11	0.66	0.60
Gearing 2 <sup>1)</sup>	-0.14	0.44	0.40

<sup>1)</sup> In solvency ratio 2 and gearing 2 shareholders' equity includes the convertible subordinated debentures (EUR 29.6 million).

## PERSONNEL

	1-9/2001	1-9/2000	2000
On average			
Power Divisions	9,458	8,982	9,404
Imatra Steel	1,264	1,282	1,281
Other operations <sup>1)</sup>	8	27	30
Ongoing operations	10,730	10,291	10,715
Sanitec <sup>2)</sup>		2,780	2,085
Group	10,730	13,071	12,800
Personnel at the end of period	10,857	10,202	10,564

<sup>1)</sup> Wärtsilä Real Estate and Corporate Management.

<sup>2)</sup> Sanitec only Jan-March 2000.

## CONTINGENT LIABILITIES

EUR million	30.9.2001	30.9.2000	31.12.2000
Mortgages	70.1	72.7	54.5
Chattel mortgages	26.0	23.1	4.2
Total	96.1	95.8	58.7

## Guarantees and contingent liabilities

on behalf of the company	407.6	503.6	500.3
on behalf of assoc. companies	0.8		
on behalf of others	2.1	2.4	2.1
Leasing obligations	40.6	44.0	45.7
Total	451.1	550.0	548.1

## NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR million	Total	of which closed
Interest rate swaps	180.0	
Foreign exchange forward contracts	1,175.8	128.4

If all above instruments had been sold at market prices at the end of the period, the effect would have been EUR +20.0 million.

Imatra Steel's third-quarter net sales decreased 7.3% compared to the same period last year. Net sales between January and September were at last year's level. The market for special engineering steels continued to weaken during the third quarter. Demand in both the vehicle and mechanical engineering industries declined. All Imatra Steel units reported lower delivery volumes compared to both the second quarter this year and the third quarter last year.

Imatra Steel's January-September operating profit was 4.0% (7.6%) of net sales. Its third-quarter result of operations, EUR -0.5 (0.3) million, was burdened by the cost of summer maintenance shutdowns, a further weakening of the Swedish krona and lower capacity utilization.

#### Holdings

Wärtsilä divested its share holdings during the period in line with its strategy. The capital released from these investments will be used to develop the company's core businesses. In addition it offers an opportunity 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, which generated a capital gain of EUR 254 million, or EUR 2.65 per share after taxes. Sanitec was no longer consolidated as an associated company during 2001; instead, Wärtsilä entered the EUR 8.6 million dividend paid by Sanitec under financial items.

In 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 497 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 4.3 (11.8) million during the period, entering a profit of EUR 2.9 (7.7) million on these transactions. Rental income totalled EUR 3.6 (4.7) 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

	1-9/2001	1-9/2000	2000
Trading in Helsinki, shares	27.0%	29.5%	33.2%
Trading in Helsinki, votes	13.8%	14.8%	16.8%
Trading on the SEAQ, shares	8.3%	8.1%	8.7%
Foreign ownership on 30 September	13.3%	12.2%	12.4%

Shares on 30 Sept. 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

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, a share price of EUR 24.03 also on the trading day preceding repayment (13 July 2001), was not fulfilled and the repayment did not therefore take place. The debentures converted into shares regardless of the conditions for repayment, 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 number of the new shares was 3,827,584 and the increase in the share capital was EUR 13,396,544.

#### Prospects to the year end

The uncertain market conditions will be reflected in Wärtsilä's Power Divisions during the final months of 2001. Both the Marine & Licensing and Power Plant divisions have several projects under preparation. Forecasting how the order books will develop to the end of the year and especially during 2002, however, is difficult owing to the market situation.

Owing to the general slowdown in investment activity the net sales of the Power Divisions will stay on the same level as last year. The result from operations in the Power Divisions is expected to reach last year's level. However, the operating profit will be lower than last year because of the EUR 30 million restructuring provision entered in March. The slowdown in demand will require further restructuring measures to achieve the long-term performance target.

Imatra Steel's markets appear likely to decline further towards the end of the year. Its full-year net sales is forecast to decrease and its result to weaken compared to last year.

31 October 2001

Wärtsilä Corporation  
Board of Directors

Wärtsilä expands into biopower through the acquisition of Sermet Oy, an established company in the market.

Picture: Puulaakson Energia Oy's biomass fuelled power plant in Karstula, delivered by Sermet Oy.



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