

Wärtsilä

Momentum peaks – down to NEUTRAL

- ▶ Wärtsilä's Q1 results clearly exceeded our forecast thanks to the superior strength at Imatra Steel. Order intake was in line at a high level, but it is increasingly evident that the numbers will decline going forward due to capacity constraints on several fronts.
- ▶ We have raised EPS(05–07e) by 6–12% almost entirely reflecting higher estimates for Imatra Steel/NewCo.
- ▶ As we are close to a peak, sensitivity to disappointments has increased. Both our SOTP and DCF models suggest a fair value of EUR19–20 per share. We have therefore downgraded our rating to NEUTRAL on valuation grounds.

NEUTRAL
MEDIUM RISK

EUR20.6

High/Low (12M)

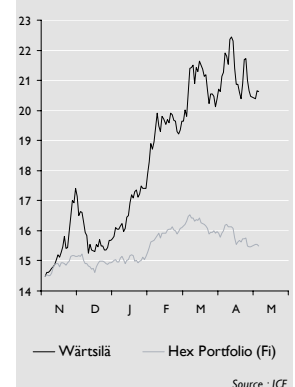
EUR22.4/10.4

Sector view: Negative

Research

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Share price



IFRS

Key figures (EUR)	2004	2005e	2006e	2007e
Sales (m)	2,478	2,577	2,728	2,631
EBITA (m)	112	197	203	193
Pre-tax profit (m)	217	223	235	222
EPS	1.42	1.71	1.81	1.71
EPS adj.	0.87	1.71	1.81	1.71
Sales growth Y/Y	5%	4%	6%	-4%
EPS adj. growth Y/Y	+chg	97%	6%	-5%
EBITA margin	4.5%	7.6%	7.4%	7.4%
P/E	14.5	12.0	11.4	12.1
P/E adj.	23.7	12.0	11.4	12.1
EV/EBITA	16.9	9.6	9.2	9.3
P/BV	2.14	1.71	1.59	1.51
Dividend yield	4.4%	4.4%	4.8%	4.4%
FCF yield	8.6%	3.9%	6.7%	8.0%

Source: Carnegie Research

Other key figures

No. shares (m)	92.7
Market cap. (EURm)	1,912
EV (2005e)	1,895
Avg. daily vol. ('000)	210
Free float	79.5%
ROE adj. (2005e)	15.8%
NIBD / Equity (2005e)	14.4%

What's changed

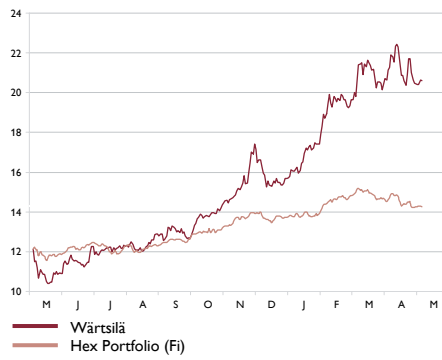
	From	To
EPS(05e)	EUR1.52	EUR1.71
EPS(06e)	EUR1.70	EUR1.81
EPS(07e)	EUR1.60	EUR1.71

Please see disclosures at the back of this report

Performance & valuation

Significant outperformance since last autumn

Price relative to market – 1Y



Source: JCF

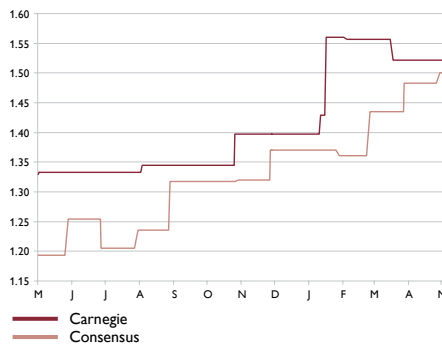
Price relative to sector – 1Y



Source: JCF

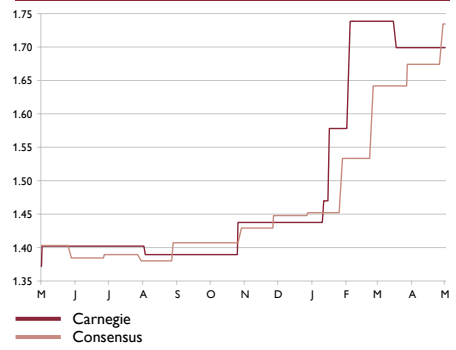
Consensus has caught up with us

Adj. EPS expectations – 2005e



Source: Carnegie Research – JCF

Adj. EPS expectations – 2006e



Source: Carnegie Research – JCF

FCF yield(05e) hampered by NWC increase due to higher volumes

Performance snapshot	1M	3M	12M	YTD
Wärtsilä %	0.0	10.3	69.9	31.5
Peer group %	-5.2	-3.8	21.2	5.1
Carnegie Capital Goods %	-6.2	-2.7	13.7	4.6
Hex Portfolio %	-1.7	-0.9	17.4	3.8
MSCI Nordic %	-3.7	-1.1	21.7	-3.1
MSCI Europe %	-3.5	-2.6	14.9	-3.4
S&P 500 %	-0.3	-1.3	-3.6	1.6
MSCI World %	-1.3	-0.8	1.2	2.1

Source: JCF

Valuation snapshot	2004	2005e	2006e	2007e
P/E	14.5	12.0	11.4	12.1
P/E adj.	23.7	12.0	11.4	12.1
EV/EBITDA	10.8	7.1	6.8	6.9
EV/EBITA	16.9	9.6	9.2	9.3
P/BV	2.14	1.71	1.59	1.51
P/BV ex. GW	3.58	2.96	2.62	2.41
Dividend yield	4.4%	4.4%	4.8%	4.4%
FCF yield	8.6%	3.9%	6.7%	8.0%

Source: Carnegie Research

Valued as a pure engineering company

Peer group comparison	Rat.	Curr.	Price	P/E Adj.		P/E bef.GW		EV/EBITA		EBITA	Dividend
				Carnegie 05e	Carnegie 06e	Consensus 05e	Consensus 06e	Carnegie 05e	Carnegie 06e	Margin 06e	Yield 05e
Atlas Copco	U	SEK	327.5	13.6	13.2	13.3	12.8	9.1	9.1	16.1%	3.2%
KCI Konecranes	U	EUR	30.6	13.9	12.2	13.6	12.5	10.8	9.5	6.0%	3.6%
Kone	N	EUR	61.8	14.2	12.7	15.6	12.7	12.4	8.3	8.2%	3.2%
Metso	OP	EUR	14.5	11.9	10.4	13.0	11.4	8.5	7.1	6.9%	3.4%
Rautaruukki	OP	EUR	10.0	3.0	4.5	4.2	7.5	2.7	3.7	11.2%	10.0%
Sandvik	N	SEK	268.0	13.1	12.0	13.7	13.1	9.9	9.1	14.6%	4.3%
SKF	N	SEK	70.3	10.1	10.1	11.0	10.8	7.2	6.9	10.8%	4.3%
SSAB	N	SEK	172.5	4.0	7.6	4.9	9.1	2.8	5.4	9.9%	5.2%
Wärtsilä	N	EUR	20.6	12.0	11.4	14.2	12.2	9.6	9.2	7.4%	4.4%
Weighted avg.				10.0	10.8			7.4	7.7	11.0%	4.1%

Source: Carnegie Research

Imatra steals the show

Wärtsilä's Q1(05) PTP of EUR42m clearly exceeded our EUR34m forecast thanks to the superior strength of Imatra Steel. The EBIT margin of 6.1% in Power Businesses was also better than our 5.4% forecast. Order intake was in line at a high level, but it is increasingly evident that the numbers will decline due to capacity constraints on several fronts. We have raised our EPS(05–07e) by 6–12% almost entirely to reflect higher estimates for Imatra Steel/NewCo, which will be consolidated as an associated company from Q2(05). Despite much positive news and earnings revisions during the past months, the stock has a had hard time gaining further ground, which highlights that we are close to a peak, increasing sensitivity disappointments. The stock still does not look overvalued, but it is difficult to justify a higher valuation. Both our SOTP and DCF models suggest a fair value of EUR19–20 per share. We believe the stock has done its duty by almost doubling its value since February last year when we upgraded it to Outperform. We have therefore downgraded our rating to NEUTRAL on valuation grounds.

Great Q1 results

Impressive order intake in Ship Power

Ship Power's order intake of EUR299m, up 53% Y/Y, was as much as 20% better than we expected. The shipyard order flow mix has favoured Wärtsilä with good demand in cruise, offshore and container-feeder markets. The recent LNG engine orders are the icing on the cake. Also, demand for propellers was brisk. Consequently, Wärtsilä's market share has increased in all product categories. Ship Power's order book rose 44% Y/Y.

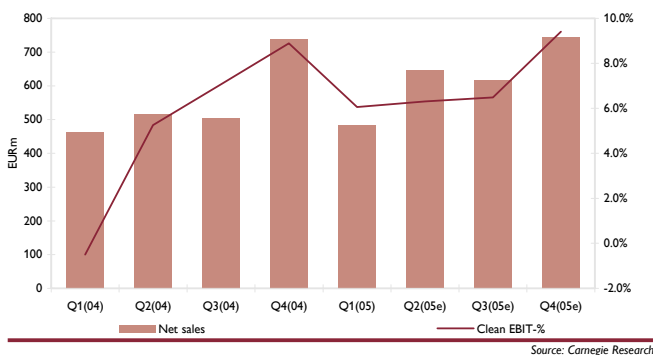
Lack of large orders in Power Plants

Power Plants' order intake was only EUR121m due to the lack of large single orders; we expected EUR180m. On a positive note, demand was fairly evenly split between geographical areas and gas power plant orders already represented 50% of the total volume. The order book rose 11% Y/Y from a very high level. In Service, net sales and order intake were as expected.

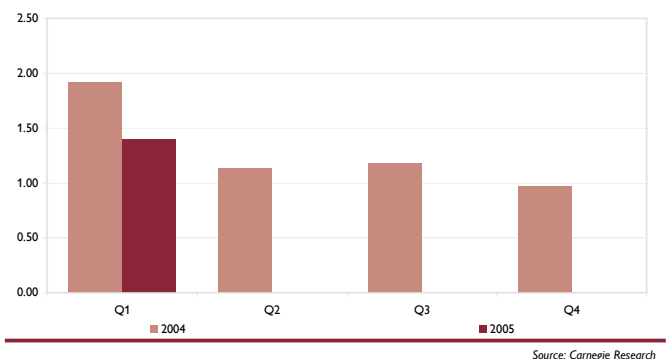
EBIT almost matched our forecast

In total, Power Businesses net sales were 14% lower than we expected, but this is not worrying as it is purely a timing matter. More importantly, EBIT of EUR29m (6.1% EBIT margin) almost matched our forecast.

Power Businesses sales & EBIT-%



Power Businesses book-to-bill



Imatra Steel again going through the roof

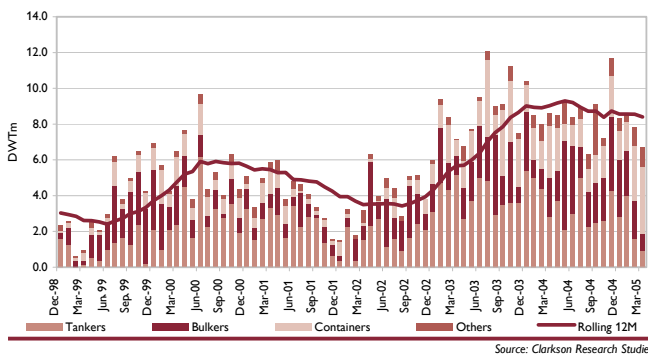
Imatra Steel again showed extraordinary strength by posting 49% Y/Y growth in net sales with a stunning 19.6% EBIT margin. The surge in demand again caused temporary product shortages in the sector, which had a favourable effect on pricing. As said earlier, Imatra Steel is a major beneficiary of the buoyant European heavy truck market, as it accounts for 50% of Imatra's net sales.

Outlook and valuation

Still no unexpected changes to shipyards' order flow

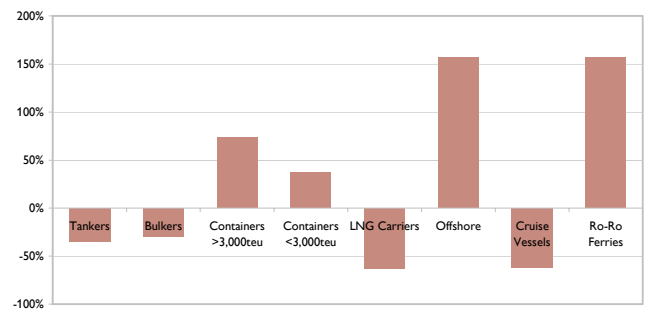
As expected, new orders to shipyards continued to decline in Q1(05) due to capacity constraints. From Wärtsilä's point of view, mix has been favourable as orders for container vessels, offshore applications and Ro-Ro ferries have increased. The decline in aggregate LNG orders may relate to the willingness of ship owners to wait for the experiences from the first LNG ship powered by Wärtsilä engines; it started operating around YE(04). Wärtsilä estimates that Ship Power's order intake will remain at a high level in Q2(05); this seems plausible to us.

Shipyards' new orders by vessel type



Source: Clarkson Research Studies

Shipyards' new orders in Q1(05), growth Y/Y, GTm



Source: Clarkson Research Studies

Capacity constraints putting a lid on Power Plants order flow

We have again assumed longer order book rotation for Ship Power, which has shifted some revenue from 2005–06e to 2007e. In Power Plants, we have lowered net sales for 2005–07 by 3–5% due to weaker than expected order intake in Q1(05) and slightly lower expectations for the coming quarters. Wärtsilä said at the analyst meeting that it had been and would continue to be selective in taking new Power Plant orders due to capacity and component shortages. This is very reasonable given the already all-time high order backlog. Nevertheless, our EBIT(05–07e) for Power Businesses is virtually unchanged.

Imatra Steel/NewCo main contributor to 6–12% higher EPS(05–07e)

Therefore, the 6–12% increase in our EPS(05–07e) comes almost entirely from higher estimates for Imatra Steel/NewCo, which will be consolidated as an associated company going forward. We expect NewCo to post another great set of numbers in Q2(05) before a slowdown in H2(05).

Downgraded to NEUTRAL

Despite much positive news and earnings revisions in recent months, the share price has had a hard time climbing further, which highlights that we are approaching a peak and that sensitivity to disappointments has increased. The stock still does not look overvalued, but it is difficult to justify a higher valuation. Both our SOTP and DCF models suggest a fair value of EUR19–20 per share. We believe the stock has done its duty by almost doubling since February last year when we upgraded it to Outperform. We have therefore downgraded our rating to NEUTRAL on valuation grounds.

Wärtsilä: Sum-of-the-parts valuation

EURm	%	Item	Valuation gauge	(x)	Our comment
1,731	98%	Power Divisions	EV/EBITA(05e) =	9.6	Cummins, Deutz, Man, Rolls-Royce, Nordic engineers
150	9%	NewCo (26.5%)			Wärtsilä, Rautaruukki, SKF joint venture
1,881	107%	Operative units			
139	8%	Assa Abloy stake (4.7%)	After-tax market value		17,270,350 B-shares, EUR1.5 per Wärtsilä share
1	0%	Rautaruukki stake (0.1%)	After-tax market value		138,886 shares
16	1%	Sampo stake (0.3%)	After-tax market value		1,901,000 shares
14	1%	Real estate portfolio	Book value		
170	10%	Holdings			
2,051	116%	Total EV			
-271	-15%	Net debt	Q1(05)		EUR2.9 per Wärtsilä share
-16	-1%	Minorities	DCF		
1764	100%	Total Equity			
19.0		Per share			

Source: Carnegie Research

Interim figures

Carnegie estimates EURm	2004			2005					Old		New		Old		New	
	Q2	Q3	Q4	Q1e	Q1	Dev.	Q2e	Q3e	Q4e	2004	2005e	2005e	2006e	2006e	2007e	2007e
Net Sales	581	559	816	628	571	-9%	645	617	744	2,478	2,810	2,577	3,045	2,728	2,871	2,631
EBITDA	52	57	113	55	64	16%	58	57	87	175	279	266	301	271	285	262
EBITDA margin (%)	8.9%	10.2%	13.8%	8.7%	11.1%	2.5%	9.0%	9.3%	11.7%	7.1%	9.9%	10.3%	9.9%	9.9%	9.9%	10.0%
EBIT	33	38	104	36	46	29%	41	40	70	112	204	197	227	203	211	193
EBIT margin (%)	5.7%	6.8%	12.8%	5.7%	8.1%	2.4%	6.3%	6.5%	9.4%	4.5%	7.3%	7.6%	7.5%	7.4%	7.3%	7.4%
Net financials	4.9	-1.9	-2.4	-2.5	-4.5	80%	1.5	-2.8	-2.5	-3.7	-8.2	-8.3	-8.2	-5.4	-4.6	-2.7
Income from associates	0.2	0.0	1.2	0.0	0.4	n.m.	16.6	8.3	8.5	1.4	1.4	33.8	1.4	37.7	1.4	31.5
Assets available for sale	0	0	0	0	0	n.m.	0	0	0	108	0	0	0	0	0	0
PTP	38	36	103	34	42	26%	59	46	76	217	197	223	220	235	207	222
Tax	-13	-14	-39	-9	-12	25%	-17	-13	-21	-86	-55	-62	-62	-66	-58	-62
Tax rate (%)	-33%	-40%	-38%	-28%	-28%	0%	-28%	-28%	-28%	-40%	-28%	-28%	-28%	-28%	-28%	-28%
Net profit	25	22	63	24	30	26%	42	32	54	130	141	159	157	167	148	158
EPS (EUR)	0.28	0.23	0.68	0.26	0.33	26%	0.45	0.35	0.59	1.42	1.52	1.71	1.70	1.81	1.60	1.71
EPS adj. (EUR)										0.87	1.52	1.71	1.70	1.81	1.60	1.71
DPS (EUR)										0.90	0.80	0.90	0.90	1.00	0.80	0.90
Sales	2004			2005							Old	New	Old	New	Old	New
EURm	Q2	Q3	Q4	Q1e	Q1	Dev.	Q2e	Q3e	Q4e	2004	2005e	2005e	2006e	2006e	2007e	2007e
Power Businesses	517	505	739	561	484	-14%	645	617	745	2,225	2,542	2,490	2,769	2,729	2,586	2,632
Ship Power	179	131	202	150	134	-11%	196	160	199	631	695	689	827	814	703	774
Power Plants	105	144	283	170	109	-36%	191	200	268	652	812	768	820	795	697	675
Service	232	228	253	240	238	-1%	257	255	277	937	1,029	1,027	1,117	1,113	1,181	1,176
Imatra Steel	64	54	77	68	87	28%	0	0	0	254	269	87	277	0	285	0
Group Sales	581	559	816	628	571	-9%	645	617	744	2,478	2,810	2,577	3,045	2,728	2,871	2,631
EBIT	2004			2005							Old	New	Old	New	Old	New
EURm	Q2	Q3	Q4	Q1e	Q1	Dev.	Q2e	Q3e	Q4e	2004	2005e	2005e	2006e	2006e	2007e	2007e
Power Businesses	27.2	35.7	90.9	30.0	29.3	-2%	40.7	40.0	70.0	87.7	180.1	180.0	201.8	202.5	184.4	193.4
Imatra Steel	5.7	2.5	13.2	6.0	17.1	185%	0.0	0.0	0.0	24.3	24.1	17.1	25.2	0.0	26.3	0.0
Group EBIT	32.9	38.2	104.1	36.0	46.4	29%	40.7	40.0	70.0	112.0	204.2	197.1	227.0	202.5	210.6	193.4
EBIT margin	2004			2005							Old	New	Old	New	Old	New
	Q2	Q3	Q4	Q1e	Q1	Dev.	Q2e	Q3e	Q4e	2004	2005e	2005e	2006e	2006e	2007e	2007e
Power Businesses	5.3%	7.1%	12.3%	5.4%	6.1%	0.7%	6.3%	6.5%	9.4%	3.9%	7.1%	7.2%	7.3%	7.4%	7.1%	7.3%
Imatra Steel	8.9%	4.6%	17.1%	8.8%	19.6%	10.8%	n.a.	n.a.	n.a.	9.6%	9.0%	19.6%	9.1%	n.a.	9.2%	n.a.
Group EBIT margin	5.7%	6.8%	12.8%	5.7%	8.1%	2.4%	6.3%	6.5%	9.4%	4.5%	7.3%	7.6%	7.5%	7.4%	7.3%	7.4%
Sales growth, Y/Y	2004			2005							Old	New	Old	New	Old	New
	Q2	Q3	Q4	Q1e	Q1	Dev.	Q2e	Q3e	Q4e	2004	2005e	2005e	2006e	2006e	2007e	2007e
Power Businesses	7%	-11%	10%	21%	4%	-17%	25%	22%	1%	3%	14%	12%	9%	10%	-7%	-4%
Ship Power	-2%	-33%	14%	26%	13%	-14%	9%	22%	-1%	-8%	10%	9%	19%	18%	-15%	-5%
Power Plants	28%	-6%	8%	41%	-9%	-50%	82%	39%	-5%	13%	25%	18%	1%	4%	-15%	-15%
Service	7%	4%	9%	8%	7%	-1%	11%	12%	9%	6%	10%	10%	8%	8%	6%	6%
Imatra Steel	16%	34%	49%	16%	49%	33%	n.a.	n.a.	n.a.	26%	6%	-66%	3%	n.a.	3%	n.a.
Group Sales	8%	-8%	13%	20%	9%	-11%	11%	10%	-9%	5%	13%	4%	8%	6%	-6%	-4%
Order intake	2004			2005							Old	New	Old	New	Old	New
EURm	Q2	Q3	Q4	Q1e	Q1	Dev.	Q2e	Q3e	Q4e	2004	2005e	2005e	2006e	2006e	2007e	2007e
Power Businesses	588	598	716	680	678	0%	667	625	620	2,791	2,530	2,590				
Ship Power	199	165	276	250	299	20%	251	200	200	837	830	950				
Power Plants	161	176	212	180	121	-33%	149	150	150	1,020	640	570				
Service	228	258	228	250	258	3%	267	275	270	935	1,060	1,070				

Source: Carnegie Research

06 May 2005

Financial statements

Profit & loss	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Sales	2,603	2,700	2,707	2,359	2,519	2,358	2,478	2,577	2,728	2,631
COGS	na	na	na	na	na	na	na	na	na	na
Gross profit	na	na	na	na	na	na	na	na	na	na
Other income & costs	-2,405	-2,314	-2,237	-1,709	-2,225	-2,220	-2,303	-2,311	-2,456	-2,369
EBITDA	198	386	470	650	294	138	175	266	271	262
Depreciation PPE	-89	-92	-80	-106	-75	-118	-46	-52	-52	-52
Other amortisation	-8	-9	-9	-9	-8	-11	-17	-17	-17	-17
EBITA	101	285	381	535	212	9	112	197	203	193
GW amortisation & Impairment	-14	-13	-14	-11	-23	-27	0	0	0	0
EBIT	88	273	367	524	189	-19	112	197	203	193
Net interest	-48	-39	-28	-26	-19	-19	-9	-11	-11	-8
Other financial items	5	3	-3	11	0	3	5	3	5	6
Net financial items	-43	-36	-31	-15	-19	-16	-4	-8	-5	-3
Share of earnings in ass. comp.	0	0	0	0	0	0	1	34	38	32
EAFI	45	237	336	509	170	-34	110	223	235	222
Other EO items	0	0	0	0	0	0	108	0	0	0
Pre-tax profit	45	237	336	509	170	-34	217	223	235	222
Taxes	-45	-96	-96	-195	-48	-4	-86	-62	-66	-62
Post-tax minorities interest	25	-9	-6	-2	-1	-1	-1	-2	-2	-2
Net profit	25	133	234	312	122	-39	130	159	167	158
Adj.Net profit	39	145	247	323	145	-12	80	159	167	158
EO items	0	0	0	0	0	0	69	0	0	0
Tax on EO items	0	0	0	0	0	0	-19	0	0	0
Sales growth Y/Y	1.2%	3.7%	0.3%	-12.9%	6.8%	-6.4%	5.1%	4.0%	5.9%	-3.5%
EBITA growth Y/Y	-22.3%	181.2%	33.4%	40.5%	-60.4%	-96.0%	1217.6%	76.0%	2.8%	-4.5%
EBITDA margin	9.2%	14.7%	16.9%	27.5%	11.7%	5.8%	7.1%	10.3%	9.9%	10.0%
EBITA margin	5.5%	10.9%	13.6%	22.7%	8.4%	0.4%	4.5%	7.6%	7.4%	7.4%
Tax rate	99.8%	40.5%	28.7%	38.3%	27.9%	-11.6%	39.6%	28.0%	28.0%	28.0%

Cash flow	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
EBITDA	198	386	470	650	294	138	175	266	271	262
Net financial items	-43	-36	-31	-15	-19	-16	-4	-8	-5	-3
Non cash adjustments	37	-187	-299	-361	-104	-22	100	0	0	0
Change in NWC	44	39	97	-52	-69	96	23	-58	-15	10
Paid taxes	-45	-96	-96	-195	-48	-4	-86	-62	-66	-62
Operating cash flow (OCF)	192	107	140	28	55	192	207	137	185	207
CAPEX PPE	-122	-84	-56	-68	-75	-63	-57	-52	-52	-52
CAPEX other intang. assets	na	na	na	na	na	na	na	-17	-17	-17
Net cash flow (NCF)	69	23	84	-40	-19	129	150	68	116	138
Other investments/Divestments	5	52	137	572	-212	41	146	-113	0	0
Dividend paid	-25	-84	-154	-158	-238	-104	-108	-83	-83	-93
Share issues & buybacks	1	85	0	1	0	1	25	0	0	0
Other non-cash adjustments	21	-157	252	97	14	-105	42	32	11	9
Change in LT non-IB liabilities	0	1	-1	-1	0	142	-34	75	0	0
Decrease in net IB debt	71	-81	318	472	-455	104	221	-21	43	54

Balance sheet	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Goodwill	128	190	120	120	390	359	360	473	473	473
Other fixed intangible assets	22	28	33	32	48	56	76	76	76	76
PPE	600	696	454	420	461	371	343	343	343	343
Shares & participations	181	293	363	144	112	120	85	237	264	287
Other fixed financial assets	0	0	0	0	0	12	7	7	7	7
Other fixed assets	33	11	10	7	8	105	81	81	81	81
Fixed assets	965	1,217	979	721	1,019	1,022	952	1,217	1,244	1,267
Inventories	680	668	539	668	628	556	565	618	655	632
Receivables	557	631	546	584	607	712	709	722	764	737
Other current assets	297	345	283	247	246	0	0	0	0	0
Cash & cash equivalents	84	110	119	185	186	161	172	171	161	161
Current assets	1,617	1,754	1,487	1,684	1,666	1,429	1,445	1,511	1,580	1,529
Total assets	2,581	2,971	2,465	2,405	2,685	2,451	2,397	2,727	2,824	2,796
Shareholders' equity	625	709	791	1,044	925	846	893	1,118	1,202	1,268
Minorities	58	180	14	6	7	6	8	9	11	13
Sub-ordinated loans	0	0	0	0	0	0	0	0	0	0
Convertibles	117	117	117	28	28	28	0	0	0	0
Deferred tax	69	65	47	38	40	0	0	0	0	0
Other IB & Non IB provisions	103	173	109	183	238	0	0	0	0	0
LT IB debt	413	403	246	145	281	289	271	211	151	101
LT non-IB liabilities	2	3	2	1	2	143	109	184	184	184
LT liabilities	587	645	404	367	561	432	380	395	335	285
ST IB debt	274	391	239	24	343	219	49	129	136	132
Payables	375	349	338	352	322	920	1,068	1,076	1,139	1,099
Other ST non-IB liabilities	544	579	562	585	500	0	0	0	0	0
Current liabilities	1,194	1,319	1,139	960	1,165	1,139	1,117	1,205	1,275	1,230
Total liabilities	2,581	2,971	2,465	2,405	2,685	2,450	2,397	2,727	2,824	2,796

Source : Carnegie Research

Share data & key ratios

Per share data (EUR)	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Adj. no. of shares in issue YE (m)	81.08	81.30	81.30	84.15	89.18	89.34	91.53	92.73	92.73	92.73
Diluted no. of Shares YE (m)	81.30	81.30	81.30	89.18	89.20	89.47	92.55	92.73	92.73	92.73
EPS	0.31	1.63	2.87	3.71	1.37	-0.44	1.42	1.71	1.81	1.71
EPS adj.	0.48	1.79	3.04	3.84	1.62	-0.14	0.87	1.71	1.81	1.71
CEPS	2.17	3.14	3.99	5.2	2.54	1.31	2.09	2.09	2.14	2.11
DPS	1.03	1.90	1.77	2.67	1.17	1.17	0.90	0.90	1.00	0.90
BVPS	7.7	8.7	9.7	11.7	10.4	9.5	9.6	12.1	13.0	13.7
BVPS ex. GW	6.1	6.4	8.3	10.4	6.0	5.4	5.8	7.0	7.9	8.6
NAVPS	7.7	8.7	9.7	11.7	10.4	9.5	9.6	12.1	13.0	13.7
NIBDPS	8.9	9.9	5.9	0.13	5.2	4.05	1.53	1.75	1.29	0.70
Valuation	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
P/E YE	26.8	6.4	3.9	3.2	5.9	neg.	11.0	12.0	11.4	12.1
P/E adj. YE	17.3	5.8	3.7	3.1	4.9	neg.	18.0	12.0	11.4	12.1
P/E average	40.2	6.5	3.8	3.3	7.7	neg.	8.9	12.0	11.4	12.1
P/E adj. average	25.9	5.9	3.6	3.2	6.4	neg.	14.5	12.0	11.4	12.1
P/CEPS YE	3.8	3.3	2.8	2.3	3.2	7.7	7.5	9.9	9.6	9.8
P/BV YE	1.08	1.20	1.14	1.00	0.77	1.06	1.63	1.71	1.59	1.51
P/BV ex. GW YE	1.36	1.63	1.35	1.13	1.34	1.85	2.72	2.96	2.62	2.41
Dividend yield YE	12.4%	18.2%	15.9%	22.7%	14.6%	11.6%	5.7%	4.4%	4.8%	4.4%
Dividend Payout Ratio	332.5%	116.5%	61.5%	72.0%	85.4%	-265.2%	63.4%	52.6%	55.4%	52.7%
EV/EBIT YE	9.9	5.4	2.9	1.8	5.7	neg.	12.8	9.6	9.2	9.3
EV/EBITA YE	9.0	5.2	2.8	1.7	5.1	>50	12.8	9.6	9.2	9.3
EV/EBITA adj. YE	7.0	5.0	2.9	1.7	5.1	>50	9.5	9.6	9.2	9.3
EV/Sales YE	0.5	0.6	0.4	0.4	0.4	0.4	0.6	0.7	0.7	0.7
EV/EBITDA YE	5.3	3.9	2.3	1.4	3.7	7.3	8.2	7.1	6.8	6.9
Share price YE	8.34	10.4	11.1	11.7	8.01	10.1	15.7	20.6		
Share price high	17.4	13.3	12.9	14.5	13.0	10.6	17.4	22.4		
Share price low	8.29	7.99	9.65	10.4	7.03	6.13	10.0	15.8		
Share price average	12.5	10.6	10.9	12.1	10.5	8.22	12.7	19.6		
Margins	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Gross margin	na	na	na	na	na	na	na	na	na	na
EBITDA margin	9.2%	14.7%	16.9%	27.5%	11.7%	5.8%	7.1%	10.3%	9.9%	10.0%
Adj. EBITDA margin	9.2%	14.7%	16.9%	27.5%	11.7%	5.8%	8.6%	10.3%	9.9%	10.0%
EBITA margin	5.5%	10.9%	13.6%	22.7%	8.4%	0.4%	4.5%	7.6%	7.4%	7.4%
Adj. EBITA margin	5.5%	10.9%	13.6%	22.7%	8.4%	0.4%	6.1%	7.6%	7.4%	7.4%
Pre-tax margin	1.7%	8.8%	12.4%	21.6%	6.8%	-1.5%	8.8%	8.6%	8.6%	8.4%
Net margin	1.0%	4.9%	8.6%	13.2%	4.8%	-1.7%	5.2%	6.2%	6.1%	6.0%
Adj. net margin	1.5%	5.4%	9.1%	13.7%	5.7%	-0.5%	3.2%	6.2%	6.1%	6.0%
Profitability	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
ROE	3.9%	19.9%	31.1%	34.0%	12.4%	-4.4%	15.0%	15.8%	14.4%	12.8%
Adj. ROE	6.1%	21.8%	33.0%	35.2%	14.7%	-1.4%	9.2%	15.8%	14.4%	12.8%
Adj. ROCE pre-tax	9.7%	18.6%	22.8%	37.7%	13.6%	1.4%	12.4%	17.6%	16.7%	15.5%
Adj. ROIC aft-tax	0.0%	10.1%	16.4%	23.4%	9.3%	0.6%	8.6%	13.3%	12.5%	11.9%
Adj. ROA pre-tax	8.1%	12.7%	14.7%	23.5%	8.9%	0.9%	6.7%	9.2%	8.9%	8.3%
FCF yield	3.9%	1.3%	5.4%	-2.2%	-1.1%	7.8%	8.6%	3.9%	6.7%	8.0%
Capital eff./Solv.	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Inventories / Sales	24.4%	25.0%	22.3%	25.6%	25.7%	25.1%	22.6%	24.0%	24.0%	24.0%
Receivables / Sales	21.0%	22.0%	21.7%	23.9%	23.6%	28.0%	28.7%	28.0%	28.0%	28.0%
Payables / Sales	14.4%	12.9%	12.5%	14.9%	12.8%	39.0%	43.1%	41.8%	41.8%	41.8%
NWC / Sales	32.0%	33.5%	31.3%	34.9%	36.0%	26.8%	11.2%	9.1%	10.0%	10.4%
Asset turnover	1.01	0.97	1.00	0.97	0.99	0.92	1.02	1.01	0.98	0.94
Sales / Capital invested	1.65	1.55	1.68	1.67	1.53	1.60	2.34	2.41	2.34	2.26
OCF / Capex	1.57	1.28	2.51	0.41	0.74	3.06	3.64	2.65	3.57	4.00
Capex / Sales	4.7%	3.1%	2.1%	2.9%	3.0%	2.7%	2.3%	2.0%	1.9%	2.0%
Capex / Depreciation PPE	1.38	0.91	0.70	0.64	1.00	0.53	1.24	1.00	1.00	1.00
Dividend payout ratio	333%	116%	61%	72%	85%	-265%	63%	53%	55%	53%
Equity / Total assets	26%	30%	33%	44%	35%	35%	38%	41%	43%	46%
Net IB debt / Equity	105%	90%	60%	1%	50%	43%	16%	14%	10%	5%
Net IB debt / EBITDA	3.6	2.1	1.0	0.0	1.6	2.6	0.8	0.6	0.4	0.2
EBITDA / Net interest	4.1	10.0	16.6	25.1	15.9	7.3	19.7	23.8	25.6	31.2
EBITA / Net interest	2.1	7.4	13.4	20.7	11.4	0.5	12.6	17.6	19.1	23.0
Balance sheet data	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Net IB debt	720	801	483	12	466	363	142	162	119	65
Net working capital (NWC)	861	949	747	900	913	348	206	264	280	270
Capital employed (CE)	1,659	2,040	1,563	1,467	1,862	1,388	1,221	1,468	1,501	1,513
Capital invested (CI)	1,611	1,863	1,353	1,471	1,812	1,134	985	1,156	1,171	1,162
Enterprise value YE (EV)	1,274	1,538	1,039	922	1,076	1,006	1,437	1,895	1,854	1,801

Source : Carnegie Research

Disclosures and disclaimers

The Carnegie Group

Carnegie is an independent Nordic investment bank operating in Securities, Investment Banking and Asset Management & Private Banking. Carnegie provides a wide array of financial products and services to Nordic and international clients from offices in eight countries: Sweden, Denmark, Norway, Finland, Luxembourg, Switzerland, the UK and the US. Carnegie Investment Banking is the leading independent corporate finance advisor in the Nordic countries. Carnegie Asset Management and Private Banking provide financial services including asset management for selected institutions and private investors. The Carnegie Group was listed on the Stockholm Bourse on 1 June 2001.

Ratings and risk assessment structure

Current rating system (as of 10 June 2003)

Stock ratings

Carnegie stock ratings are relative to Carnegie's coverage universe on a Nordic sector basis.

- OP=Outperform The stock is expected to outperform the return on the Carnegie coverage universe of the Nordic Sector over the next 6 months.
- N=Neutral The stock is expected to perform in line with the return on the Carnegie coverage universe of the Nordic Sector over the next 6 months.
- U=Underperform The stock is expected to underperform the return on the Carnegie coverage universe of the Nordic Sector over the next 6 months.

Sector View

Carnegie's coverage universe on a Nordic sector basis is rated relative to the total Nordic market. Carnegie's strategists, in co-operation with the sector heads, set the sector recommendations.

- Positive The sector is expected to outperform the return on the total Nordic market over the next 6 months.
- Neutral The sector is expected to perform in line with the return on the total Nordic market over the next 6 months.
- Negative The sector is expected to underperform the return on the total Nordic market over the next 6 months.

Other ratings

- NR=Not rated The investment rating, if any, has been suspended temporarily.
- UR=Under review The investment rating, if any, has been suspended temporarily.
- UB=Under bid The investment rating, if any, has been suspended temporarily.

Risk assessment

The risk assessment is based on the analyst's evaluation of the company's equity beta based on the business risk (asset beta) and financial risk (gearing).

- Low risk Estimated equity beta <0.75
- Medium risk Estimated equity beta 0.75 to 1.25
- High risk Estimated equity beta >1.25

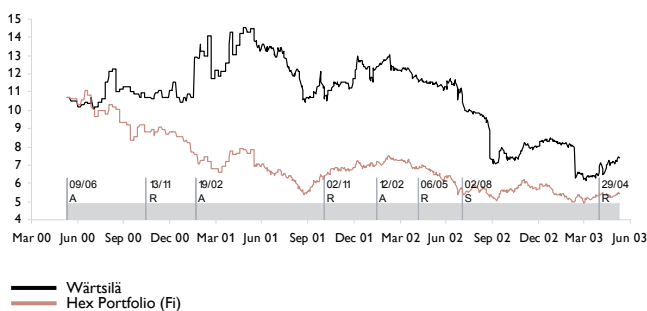
Previous rating system

- SB=Strong buy The stock is expected to provide a return of greater than 20% over the next 6 months.
- B=Buy The stock is expected to provide a return of between 10% and 20% over the next 6 months.
- Acc=Accumulate The stock is expected to provide a return of between 5% and 10% over the next 6 months.
- R=Reduce The stock is expected to provide a return of between 0% and 5% over the next 6 months.
- S=Sell The stock is expected to provide a return of less than 0% over the next 6 months.

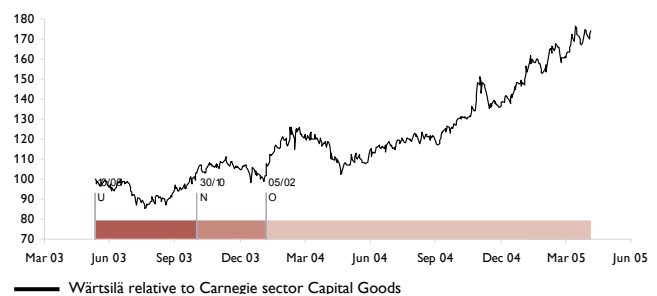
Stock rating distribution for sector Capital Goods

Rating	No. of stocks
Outperform	12
Neutral	12
Underperform	17
Not Rated	0
Under Bid	0
Under Review	0
Total	41

Price and company rating history (WRTBV.HE)
Old rating structure until 9 June 2003



Price relative to sector and company rating history (WRTBV.HE)
New rating structure from 10 June 2003



Source: Carnegie Research

06 May 2005

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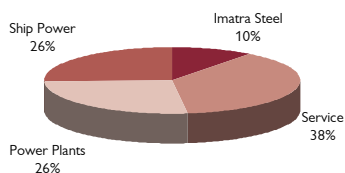
Wärtsilä Company Summary

Profit & loss	2003	2004	2005e	2006e	2007e
Sales	2,358	2,478	2,577	2,728	2,631
EBITDA	138	175	266	271	262
EBITA	9	112	197	203	193
EBIT	-19	112	197	203	193
Pre-tax profit	-34	217	223	235	222
Net profit	-39	130	159	167	158
EO items	0	69	0	0	0

Balance sheet	2003	2004	2005e	2006e	2007e
Total assets	2,451	2,397	2,727	2,824	2,796
Shareholders' equity	846	893	1,118	1,202	1,268
Goodwill	359	360	473	473	473
Net IB debt	363	142	162	119	65

Cash flow	2003	2004	2005e	2006e	2007e
EBITDA	138	175	266	271	262
Operating cash flow	192	207	137	185	207
Net cash flow (NCF)	129	150	68	116	138
Decrease in net IB debt	104	221	-21	43	54

Product areas



Source: Carnegie Research

Company description

Wärtsilä Marine caters to the needs of shipowners and shipyards by offering ship power systems. Wärtsilä supplies engines, propulsion and control solutions for all types of marine vessels and offshore applications. Wärtsilä Power Plants supplies power solutions based on oil, gas and dualfuel reciprocating engines with the focus on decentralized power generation market. Service provides maintenance and recondition such as non-OEM service in key ports, predictive and conditionbased maintenance, and operations and maintenance contracts. The Wärtsilä Group includes also Imatra Steel, which specializes in special engineering steels.

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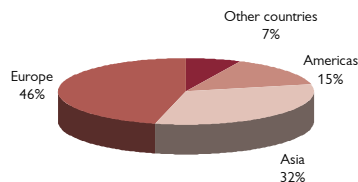
Carnegie Bank A/S

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Per share data	2003	2004	2005e	2006e	2007e
EPS	-0.44	1.42	1.71	1.81	1.71
EPS adj.	-0.14	0.87	1.71	1.81	1.71
EPS adj. Growth	-chg	+chg	96.6%	5.5%	-5.4%
CEPS	1.31	2.09	2.09	2.14	2.11
DPS	1.17	0.90	0.90	1.00	0.90
BVPS ex. GW	5.4	5.8	7.0	7.9	8.6
NIBDPS	4.05	1.53	1.75	1.29	0.70

Ratios	2003	2004	2005e	2006e	2007e
P/E	neg.	14.5	12.0	11.4	12.1
P/E adj.	neg.	23.7	12.0	11.4	12.1
P/BVPS	2.2	2.1	1.7	1.6	1.5
P/BVPS ex. GW	3.8	3.6	3.0	2.6	2.4
P/CEPS	15.8	9.8	9.9	9.6	9.8
EV/Sales	0.9	0.8	0.7	0.7	0.7
EV/EBITDA	14.7	10.8	7.1	6.8	6.9
EV/EBITA	>50	16.9	9.6	9.2	9.3
Dividend yield	5.7%	4.4%	4.4%	4.8%	4.4%
FCF yield	7.8%	8.6%	3.9%	6.7%	8.0%

Geographical areas



Source: Carnegie Research

Company miscellaneous

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 Next report: 05 Aug 2005

Major shareholders

	Capital	Votes		Capital	Votes
Fiskars Corporation	20.5%	28.1%	Svenska Litteratursäll	1.6%	4.8%
Sampo Life Insurance	2.8%	8.5%	Brita Maria Renlund I	0.9%	1.4%
Varma Mutual Pensic	2.8%	5.0%	Nominee Registratio	15.6%	5.4%

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