WÄRTSILÄ

Power
on Land and
at Sea

Interim Report

JANUARY-JUNE 2003

Strategic focus on ship power systems and service

- Focus on ship power systems and service.
- Power plant business to be re-examined. Focus on areas of strength in markets and products.
- Low order intake in 2002 reduced net sales and result.
- Power Divisions' order intake up 29% in first half of year.

An exceptionally high number of ships were ordered at Asian shipyards in the first six months of the year as total investments in new ships in the first half of the year exceeded the entire figure for 2002. Business continues to be slow in Wärtsilä's traditional home market, Europe. The lower prices offered by Asian engine manufacturers intensified competition.

The power plant market showed no significant recovery during the spring months. Projects under negotiation made progress, although more slowly than expected. Demand does not correspond to supply in this field.

FOCUS ON SHIP POWER SYSTEMS AND SERVICE

Wärtsilä is planning to concentrate its resources more strongly on ship power systems and service. Among other things this will mean starting manufacturing of marine engines and propellers in the growing Chinese market as well as acquisitions aimed at broadening the company's range of products and services in this sector.

The structure and product portfolio of the Power Plants business will be re-examined and focused.

Revision of the corporate strategy is part of the Group's development, the aim of which is significantly improve the company's profit generating ability. The Group's targeted operating margin is 7-8%. That is why Wärtsilä will begin to prepare a plan for a new structure during the coming autumn. It is foreseen that this will also include measures that will further concentrate the Group's manufacturing capacity.

NET SALES BY DIVISION

EUR mill.	4-6/2003	4-6/2002	Change
Power Divisions	483.2	649.5	–25.6%
Imatra Steel	55.5	52.6	5.5%
Intragroup sales	–0.2	–0.7	
Group	538.5	701.4	–23.2%

EUR mill.	1-6/2003	1-6/2002	Change	2002
Power Divisions	916.3	1,176.5	–22.1%	2,319.9
Imatra Steel	110.6	106.7	3.7%	200.4
Intragroup sales	–0.3	–0.9		–1.3
Group	1,026.6	1,282.3	–19.9%	2,519.0

Wärtsilä Group's net sales decreased by 19.9%, mainly due to the timing of power plant deliveries.

OPERATING PROFIT BY DIVISION

EUR mill.	4-6/2003	4-6/2002	Change
Power Divisions	14.0	30.7	–54.4%
Imatra Steel	2.2	2.9	–24.1%
Operational EBIT	16.2	33.6	–51.8%
Capital gains (Assa Abloy)		111.1	
Group	16.2	144.7	

EUR mill.	1-6/2003	1-6/2002	Change	2002
Power Divisions	22.3	32.1	–30.5%	74.6
Imatra Steel	–1.1	5.6		3.2
Operational EBIT	21.1	37.7	–43.8%	77.8
Capital gains (Assa Abloy)		111.1		111.1
Group operating profit	21.1	148.8	–85.8%	188.9

The consolidated operating profit was EUR 21.1 (148.8) million. Last year's figure includes a capital gain of EUR 111.1 million on the sale of Assa Abloy shares.

The operating profit of the Power Divisions was EUR 22.3 (32.1) million. The reason for the decrease was the lower manufacturing load. Imatra Steel's result of operations, EUR -1.1 million, was burdened by a EUR 4.5 million writedown of fixed assets during the first quarter. Net financial items amounted to EUR -5.5 (-1.5) million. The Group's profit before taxes was EUR 15.6 (147.3) million. Earnings per share (EPS) were EUR 0.13 (1.58). The order intake of the Power Divisions rose 28.9% to EUR 1,102.3 (855.0) million.

Capital expenditure during the period totalled EUR 24.9 (363.1) million and included the acquisition of the Dutch company Caltax Marine Diesel BV during the first quarter. Depreciation during the reporting period amounted to EUR 56.3 (49.9) million, and included EUR 13.4 (9.5) million in amortization of goodwill on consolidation. Cash reserves at the end of the period totalled EUR 136.5 (212.5) million. Net interest-bearing loan capital increased to EUR 521.5 (373.7) million, mainly because of growth in working capital.

The solvency ratio was 35.0% (35.1) and gearing was 0.67 (0.47).

POWER DIVISIONS

EUR mill.	4-6/2003	4-6/2002	Change
Net sales	483.2	649.5	–25.6%
Operating profit	14.0	30.7	–54.4%
% of net sales	2.9%	4.7%	
Order intake	511.9	342.3	49.5%

EUR mill.	1-6/2003	1-6/2002	Change	2002
Net sales	916.3	1.176.5	–22.1%	2,319.9
Operating profit	22.3	32.1	–30.5%	74.6
% of net sales	2.4%	2.7%		3.2%
Order intake	1,102.3	855.0	28.9%	1,882.8
Order book at 30 June	1,392.8	1,372.8	1.5%	1,206.6

The six-month operating profit margin of the Power Divisions was 2.4% (2.7). The second-quarter operating profit was an improvement on the first-quarter figure. The order intake of the Power Divisions grew. The order book was at the same level as one year earlier and clearly better than the order book at the end of 2002.

Restructuring measures were continued in the Power Divisions in line with market conditions. The closure of the factory in the Netherlands was completed in the first quarter and its production operations were transferred to Italy. The temporary layoffs started at the Turku factory in the autumn were continued. Negotiations were concluded in France on the reduction of approximately 130 employees during this year and 2004.

MARINE				
EUR mill.	4-6/2003	4-6/2002	Change	
Net sales	176.3	212.1	–16.9%	
Order intake	130.2	103.7	25.6%	
EUR mill.	1-6/2003	1-6/2002	Change	2002
Net sales	298.2	356.7	–16.4%	763.4
Order intake	296.3	185.8	59.5%	506.7
Order book at 30 June	616.4	739.9	–16.7%	617.7

The Marine Division's order intake between April and June showed a clear increase, being 25.6% higher than at the same time last year. These periods are comparable because Wärtsilä Propulsion was consolidated from the beginning of April 2002. The six-month order intake rose 59.5%. The order book was at a lower level than in the comparable period but at the same level as at the end of 2002.

Demand remained lively for large tankers, containerships and bulk carriers. The offshore, cruise ship and passenger ferry markets were slack.

Wärtsilä gained propulsion system orders for one cruise ship and five passenger ferries; in the market altogether, only one cruise ship and 10 passenger ferries were ordered during the period. Wärtsilä Propulsion continued to develop well and received several significant orders. Orders for Sulzer engines manufactured under licence rose likewise and Wärtsilä's position strengthened further, especially in the containership market. Wärtsilä expects to see its dual-fuel engines achieve a breakthrough in the LNG carrier market this year.

POWER PLANTS				
EUR mill.	4-6/2003	4-6/2002	Change	
Net sales	81.5	217.9	–62.6%	
Order intake	137.8	44.5	209.7%	
Order intake, MW				
Diesel	238	75	217.3%	
Gas	50	32	56.3%	
BioPower, MWth	46	28	64.3%	
EUR mill.	1-6/2003	1-6/2002	Change	2002
Net sales	162.6	390.5	-58.4%	666.0
Order intake	300.9	212.5	41.6%	427.9
Order intake, MW				
Diesel	533	379	40.6%	539
Gas	83	96	–13.5%	293
BioPower, MWth	128	45	184.4%	107
Order book at 30 June	391.0	312.1	25.3%	255.2

Investment decisions continue to be postponed owing to general uncertainty in the global economy and energy sector, as well as unfavourable exchange rates. Forecasting of market trends is difficult although small projects are making progress. The most lively markets are in Central and Southern America, Africa, the Middle East and South Asia.

Wärtsilä won three times as many new power plant orders during the second quarter as in the same period last year. The six-month order intake rose 41.6% compared to the first six months of last year. The most important orders for oil-fired power plants came from Portugal, Saudi Arabia and Sudan. The largest gas power plant orders were placed by customers in Hungary, India and Japan. Wärtsilä sold its first biopower plant in Ireland.

SERVICE	4-6/2003	4-6/2002	Change	
Net sales, EUR mill.	217.6	207.6	4.8%	
	1-6/2003	1-6/2002	Change	2002
Net sales, EUR mill.	434.6	406.8	6.8%	843.4
Personnel at 30 June	5,839	5,314	9.9%	5,644
Long-term service agreements, MW	9,867	9,321	5.9%	9,756
O&M (operation & maintenance) agreements, MW	2,182	1,824	19.6%	2,056

Net sales of the Service Division continued to rise but fell short of the long-term growth target. The increase in the reporting period was 6.8%. Net sales rose more slowly during the second quarter principally because the exchange rate of the US dollar weakened.

The volume of long-term service and operation agreements covers more than 12,000 MW, or over 9%, of Wärtsilä's total active installed engine base (128,000 MW). The volume of long-term service agreements rose 5.9% to 9,867 MW. Operation and maintenance (O&M) agreements cover 2,182 MW, or more than 120 power plants around the world, an increase of 19.6%. The first O&M agreement for a biopower plant was signed in May, marking a significant strategic step for Wärtsilä's service business.

ENGINE MANUFACTURING AND TECHNOLOGY

The thrust of Wärtsilä's product development activities is on environmentally sound combustion and engine technology. The research project started by Wärtsilä and MAN B&W Diesel is making planned progress.

Engine manufacturing volumes were at a low level during the first half of the year. The streamlining measures started in autumn 2002 are being continued.

IMATRA STEEL				
EUR mill.	4-6/2003	4-6/2002	Change	
Net sales	55.5	52.6	5.5%	
Operating profit	2.2	2.9	–24.1%	
% of net sales	4.0%	5.5%		
EUR mill.	1-6/2003	1-6/2002	Change	2002
Net sales	110.6	106.7	3.7%	200.4
Operating profit/loss	–1.1	5.6		3.2
% of net sales	–1.0%	5.2%		1.6%

INCOME STATEMENT

EUR mill.	1-6/2003	1-6/2002	2002
Net sales	1,026.6	1,282.3	2,519.0
Other operating income	12.9	115.7	138.3
Expenses	–961.7	–1,199.8	–2,363.5
Depreciations and write-downs	–56.3	–49.9	–105.4
Share of profits in associated companies	–0.3	0.5	0.4
Operating profit	21.1	148,8	188.9
Financial income and expenses	–5.5	–1.5	–18.5
Profit before taxes	15.6	147.3	170.4
Income taxes [1]	–7.5	–53.1	–47.6
Minority interests	–0.2	–0.2	–1.0
Result of the financial period	8.0	94.0	121.9

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

BALANCE SHEET

EUR mill.	30.6.2003	30.6.2002	31.12.2002
Fixed assets	971.5	1,005.4	1,018.7
Current assets			
Inventories	683.4	710.0	628.1
Receivables	757.5	891.5	852.3
Cash and bank balances	136.5	212.5	185.8
Total	2,548.9	2,819.4	2,685.0
Share capital	208.7	208.1	208.1
Other shareholders' equity	646.7	720.4	744.9
Minority interests	6.0	6.7	6.5
Provisions	135.4	173.3	154.0
Long-term liabilities	295.1	496.2	322.7
Current liabilities	1,257.1	1.214.7	1,248.8
Total	2,548.9	2,819.4	2,685.0

GROSS CAPITAL EXPENDITURE

EUR mill.	1-6/2003	1-6/2002	2002
Investments in securities and acquisitions			
Power Divisions	0.9	330.6	348.6
Other investments			
Power Divisions	19.3	25.7	58.7
Imatra Steel	4.7	6.8	16.0
	24.0	32.5	74.7
Group	24.9	363.1	423.3

INTEREST-BEARING LOAN CAPITAL

EUR mill.	30.6.2003	30.6.2002	31.12.2002
Long-term liabilities	251.6	456.2	281.2
Short-term liabilities	411.9	156.5	343.1
Convertible subordinated debentures	27.9	27.9	27.9
Loan receivables	–33.3	–54.4	–35.7
Cash and bank balances	–136.5	–212.5	–185.8
Net	521.5	373.7	430.6

FINANCIAL RATIOS

	1-6/2003	1-6/2002	2002
Earnings/share, EUR	0.13	1.58	2.05
Equity/share, EUR	13.88	15.15	15.56
Solvency ratio 1, %	35.0	35.1	36.9
Solvency ratio 2 [1], %	36.1	36.2	38.0
Gearing 1	0.67	0.47	0.50
Gearing 2 [1]	0.61	0.43	0.46

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

FINANCIAL ANALYSIS

EUR mill.	1-6/2003	1-6/2002	2002
Cash flow from operating activities:			
Operating profit/loss	21.1	148.8	188.9
Depreciation and write-downs	56.3	49.9	105.4
Selling profit and loss of fixed assets and other adjustments	–2.8	–113,3	–113.0
Changes in working capital	–59.7	–9.8	–69.0
Cashflow from operating activities before financial items and taxes	15.0	75.7	112.3
Net financial expenses and paid income tax	–11.0	–47.4	–56.9
Cashflow from operating activities (A)	3.9	28.3	55.4
Cashflow from investing activities:			
Net investments in tangible and intangible assets	–18.6	–30.4	–56.0
Investments in shares and acquisitions	–0.9	–330.6	–354.7
Proceeds from sale of shares after taxes	1.2	139.1	119.2
Cashflow from other investing activities	9.1	9.0	5.2
Cashflow from investing activities (B)	–9.3	–212.9	–286.5
Cashflow from financing activities:			
Issuance of share capital and premium	1.0		
New long-term loans	155.6	390.0	472.0
Amortisation of long-term loans	–194.3	–65.0	–276.1
Paid dividends	–104.3	–238.3	–238.6
Changes in short-term loans and other financing activities	98.0	125.9	275.1
Cashflow from financing activities (C)	–44.0	212.6	232.3
Change in liquid funds (A+B+C), increase(+)/decrease(-)	–49.3	27.9	1.3
Liquid funds at beginning of period	185.8	184.6	184.6
Liquid funds at end of period	136.5	212.5	185.8

PERSONNEL

On average	1-6/2003	1-6/2002	2002
Power Divisions	10,977	10,867	11,024
Imatra Steel	1,381	1,396	1,393
Group	12,358	12,263	12,417
Personnel, end of period	12,261	12,362	12,459

CONTINGENT LIABILITIES

EUR mill.	30.6.2003	30.6.2002	31.12.2002
Mortgages	46.7	66.7	64.7
Chattel mortgages	45.8	44.7	41.9
Total	92.5	111.4	106.6
Guarantees and contingent liabilities			
On behalf of the company	246.8	284.2	243.9
On behalf of assoc. companies	1.1	1.1	1.1
Leasing obligations	41.8	40.9	45.7
Total	289.7	326.2	290.7

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR mill.	Total	of which closed
Interest rate swaps	250.0	160.0
Foreign exchange forward contracts	918.3	53.1
Currency options, purchased	8.6	

If all above instruments had been sold at market prices at the end the period, the effect would have been EUR 6.7 million.

Imatra Steel's net sales increased 5.5% between April and June due to growth in its forging business. Demand in the special engineering steels market overall remained unchanged.

Imatra Steel showed an operating profit of EUR 2.2 (2.9) million between April and June. The weaker result arose mainly from the fact that the company was unable to transfer the sharply increased raw material and energy prices to its product prices to a sufficient degree.

Under an agreement signed in June, Styria Group will acquire the assets and operations of the Billnäs Spring Works on 31 July 2003. The impact of this deal on Imatra Steel's profits will be neutral after write-down of fixed assets. Imatra Steel will henceforth concentrate on manufacturing and marketing long special engineering steels and forged components for the heavy truck industry.

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 233.1 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 meeting 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 Accountant KPMG Wideri Oy Ab were appointed to be 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

	1-6/2003	1-6/2002	2002
Trading in Helsinki, shares	26.2%	25.3%	43.4%
Trading in Helsinki, votes	9.2%	10.9%	19.9%
Trading on the SEAQ, shares	0.5%	9.8%	11.1%
Foreign ownership at 30 June	8.8%	11.2%	8.8%

SHARES AT 30 JUNE 2003

	A share	B share	Total
Number of shares	15,415,855	44,202,057	59,617,912
Number of votes	154,158,550	44,202,057	198,360,607

SHARE PRICE ON THE HELSINKI EXCHANGES

1 Jan. – 30 June 2003

	Highest EUR	Lowest EUR	Average[1] EUR	Total traded No.
A share	13.69	10.00	11.03	307,105
B share	12.85	9.20	10.94	15,283,439

[1] Trading volume weighted average price.

MARKET CONDITIONS AND PROSPECTS IN 2003

Investments in new tankers are at a good level this year and the expected EU regulations on double hulls will be a further spur to investment activity. Demand for bulk carriers is expected to be high and the volume of containership orders should maintain its current momentum. A limiting factor could be the insufficiency of shipyard capacity in Asia. Wärtsilä's traditional marine engine market in Europe will remain slack, which further emphasizes the need for restructuring.

Uncertainty will continue in the power plant market. A few largish orders can be expected this year. Wärtsilä estimates that its total power plant order intake for the year will be higher than in 2002. The postponement of decisions in this sector is likely to continue, however. The intake of biopower plant orders is forecast to develop favourably.

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.

The Power Divisions' order intake grew during the first half of the year. The order book at the end of June was at the same level as one year earlier and clearly better than the order book at the end of 2002. The Power Divisions' net sales and operational profitability in 2003 are expected to be at last year's levels. Streamlining measures will be continued and once the plans and evaluations are completed a restructuring provision will be made that will burden the Power Divisions' result for 2003.

The market outlook in Imatra Steel's business continues to be uncertain in the second half of the year. However, Imatra Steel's net sales are expected to increase and its operational result to improve due to streamlining measures.

30 July 2003

Wärtsilä Corporation
Board of Directors

July 2003

WÄRTSILÄ®, SULZER® and LIPS® are registered trademarks.

Wärtsilä Corporation
John Stenbergin ranta 2
P.O. Box 196
00531 Helsinki, Finland

Tel. +358 10 709 0000
Fax +358 10 709 5700
www.wartsila.com