



# Interim Report

January - September **2000**

## THIRD QUARTER HIGHLIGHTS

- Wärtsilä's net sales totalled EUR 597.9 (604.0) million. Comparable growth was 31.9%.
- Profit before extraordinary items was EUR 134.8 (130.2) million. Comparable growth was EUR 22.6 million.
- Orderbook of Power Divisions (formerly Wärtsilä NSD) rose 26.3%, operating profit was EUR 22.4 (0.0) million, i.e. 4.0% of net sales.
- Metra was renamed Wärtsilä.
- Ole Johansson started as President and CEO.

# INTERIM REPORT JANUARY-SEPTEMBER 2000 WÄRTSILÄ CORPORATION

## RESULT 1 JAN. – 30 SEP. 2000

Wärtsilä's net sales totalled EUR 1,950.0 (1,931.2) million. The operating profit was EUR 318.6 (191.2) million, which included a EUR 225.4 million profit on the sale of 12 million Assa Abloy shares. The proforma operating profit for the comparable period included a profit of EUR 21.4 million on the sale and issue of Assa Abloy shares as well as a profit of EUR 99.8 million on corresponding transactions of Sanitec shares. The profit before extraordinary items was EUR 285.2 (160.6) million. Earnings per share were EUR 3.53 (1.83).

### NET SALES BY DIVISION

EUR million	Q3/2000	Q3/1999 <sup>2)</sup>	Change	
Power Divisions <sup>1)</sup>	558.2	420.6	+32.7%	
Imatra Steel	39.6	32.5	+21.8%	
Sanitec <sup>3)</sup>		150.8		
Other operations <sup>4)</sup>	2.0	2.3		
Intragroup sales	-1.9	-2.2		
Total	597.9	604.0	-1.0%	
	1-9/2000	1-9/1999	Change	1999
Power Divisions	1,583.1	1,340.0	+18.1%	1,896.6
Imatra Steel	141.9	125.1	+13.4%	173.0
Sanitec <sup>3)</sup>	224.4	465.7		630.0
Other operations <sup>4)</sup>	6.2	6.7		8.8
Intragroup sales	-5.6	-6.3		-8.4
Total	1,950.0	1,931.2	+1.0%	2,700.0

<sup>1)</sup> Power Divisions comprise the business areas of the former Wärtsilä NSD.

<sup>2)</sup> In earlier years Wärtsilä published its interim reports at four-month intervals. For this reason the comparable figures for 1999 are proforma figures

<sup>3)</sup> Sanitec only 1-3/2000 in 2000.

<sup>4)</sup> Wärtsilä Real Estate and Corporate Management.

### OPERATING PROFIT BY DIVISION

EUR million	Q3/2000	Q3/1999	Change	
Power Divisions	22.4	0.0	+22.4	
Imatra Steel	0.3	0.5	-0.2	
Sanitec <sup>2)</sup>		19.7		
Other operations <sup>3)</sup>	<sup>1)</sup> 130.7	<sup>5)</sup> 122.1	+8.6	
Total	153.3	142.3	+11.0	
	1-9/2000	1-9/1999	Change	1999
Power Divisions	46.8	0.0	+46.8	-28.5
Imatra Steel	10.8	6.9	+3.9	10.8
Sanitec <sup>2)</sup>	17.9	58.0		80.6
Other operations <sup>3)</sup>	<sup>4)</sup> 243.1	<sup>5)</sup> 126.3	+116.8	209.8
Total	318.6	191.2	+127.4	272.7

<sup>1)</sup> Includes EUR 126.4 million profit on sale of Assa Abloy shares.

<sup>2)</sup> Sanitec consolidated as subsidiary in 1-3/2000 and recorded as an associated company thereafter.

<sup>3)</sup> Wärtsilä Real Estate, Corporate Management and associated companies.

<sup>4)</sup> Includes EUR 225.4 million profit on sale of Assa Abloy shares.

<sup>5)</sup> Includes EUR 21.4 million profit on sale and issue of Assa Abloy shares and EUR 99.8 million profit on sale and issue of Sanitec shares.

### CHANGES IN GROUP STRUCTURE

Wärtsilä NSD became a wholly owned subsidiary of Metra on 29 February 2000 when Metra acquired Fincantieri Cantieri Navali Italiani's 15.4% minority holding for EUR 100 million. Metra was renamed Wärtsilä by an extraordinary general meeting on 13 September 2000 and the change of name was registered on 22 September 2000. In connec-

tion with these changes the corporate managements of the parent company and Wärtsilä NSD have been combined. The former Wärtsilä NSD business areas are now called Power Divisions.

Wärtsilä's holding in Sanitec now totals 46.7% following the distribution of an extra dividend in Sanitec shares on 7 April 2000, as decided by Metra's Annual General Meeting on 23 March 2000. Consequently, Sanitec is consolidated in this interim report as a subsidiary in the income statement until the end of March but recorded as an associated company from April on.

Wärtsilä sold five million Assa Abloy shares on 8 March 2000 for EUR 111.5 million and a further seven million shares on 4 September 2000 for EUR 147.3 million. These sales generated a total pre-tax profit of EUR 225.4 million. In June Wärtsilä participated in Assa Abloy's rights issue in proportion to its holding, subscribing for 2.5 million new shares for EUR 35.9 million. Wärtsilä's holding in Assa Abloy now totals 16.4%. Assa Abloy is no longer treated as an associated company in Wärtsilä's financial accounts.

The Cummins Wärtsilä joint venture company was split up between the two owners in February.

The bulk of investments during the period comprised the acquisition of the minority holding in Wärtsilä NSD and Wärtsilä's participation in the Assa Abloy issue.

### POWER DIVISIONS

EUR million	Q3/2000	Q3/1999	Change	
Net sales	558.2	420.6	+32.7%	
Operating profit	22.4	0.0		
as % of net sales	4.0%	0.0%		
Order intake	507.8	500.1	+1.5%	
	1-9/2000	1-9/1999	Change	1999
Net sales	1,583.1	1,340.0	+18.1%	1,896.6
Operating profit/loss	46.8	0.0		-28.5
as % of net sales	3.0%	0.0%		-1.5%
Order intake	1,695.7	1,237.0	+37.1%	1,853.7
Orderbook, end of period	1,564.7	1,239.2	+26.3%	1,314.9

Wärtsilä Power Divisions continued to develop well during the third quarter. Compared to the same period last year, the order intake improved particularly well in Power Plants and Service. Marine's order intake remained strong. The total orderbook for Power Divisions remained at the record level of over EUR 1.5 billion. The steady growth in net sales combined with the company's more streamlined cost structure raised the third-quarter operating profit to 4.0% of net sales. The Group's target is to increase the operating margin to above 7%.

### Marine & licensing

EUR million	Q3/2000	Q3/1999	Change	
Net sales	186.3	156.4	+19.1%	
Order intake	218.1	270.8	-19.5%	
	1-9/2000	1-9/1999	Change	1999
Net sales	515.3	454.8	+13.3%	637.7
Order intake	621.4	517.8	+20.0%	688.8
Orderbook, end of period	841.0	736.7	+14.2%	678.1

Shipyards around the world reported a further increase in order intake during the third quarter. Korean shipyards gained the bulk of new orders due to their price competitiveness but shipyards in China and Japan once again increased their market shares owing to the long delivery times offered by the yards in Korea. The demand for newbuildings is forecast to continue at the current level to the end of the year, which is expected to generate new orders for Wärtsilä and Sulzer propulsion solutions.

Container ships, tankers and cruise ships make up a large proportion of the recent new orders. Growth is next expected in the market for bulk carriers and medium-sized tankers. The sinking of the Erika off the French coast has generated higher awareness of environmental and safety issues in the oil industry. New ship orders on the basis of that will open up opportunities for Wärtsilä and Sulzer solutions.

Wärtsilä engines continued to maintain their strong position in the medium-speed segment of the market, particularly in cruise ships. The orderbook for Sulzer engines improved on the comparable period.

Wärtsilä's EnviroEngine technology has been well received in the market. Customers are aiming to achieve emission levels below the official standards and legislation in order to impose the least possible load on the environment. Wärtsilä's new smokeless common rail engines have already been ordered for several cruise ships. Interest in this technology is expected to spread to other types of vessel as well.

Wärtsilä presented The Ship Power Supplier strategy at the SMM shipbuilding fair in Hamburg in September 2000. Wärtsilä is shifting its focus to complete propulsion solutions, a central element of which is its co-operation with John Crane-Lips. Under the terms of the agreement Wärtsilä is able to sell complete propulsion packages with the total Lips propeller portfolio available. At the same time Wärtsilä discontinued propeller manufacturing in Norway.

#### Power Plants

EUR million	Q3/2000	Q3/1999	Change	
Net sales	194.1	127.6	+52.2%	
Order intake	108.7	87.4	+24.3%	
	1-9/2000	1-9/1999	Change	1999
Net sales	537.9	460.6	+16.8%	655.4
Order intake	544.8	269.4	+102.2%	552.6
Orderbook, end of period	539.4	359.4	+50.1%	460.3

The Asian market for power plants improved mainly in Taiwan and Japan as well as certain Pacific islands. Demand in Turkey developed well during the third quarter also. Power Plants gained new orders covering a wide geographical area from Asia and Africa to the Americas. Europe has remained the main market for gas power plants. Independent Power Producers (IPPs) were particularly active. Wärtsilä was involved in arranging financing for a number of projects.

Wärtsilä's share of the heavy fuel oil (HFO) market rose to 58% according to statistics (June 1, 1999 – May 31, 2000) published by Diesel&Gas Turbine Worldwide. The

market share for the comparable period was 55%. Wärtsilä's overall share of the power plant market declined to 7% (10%), when all fuels and also gas turbines under 60 MW in size are included in the comparison. Main reason for the development is the substantial increase of the market share of small gas turbines. The volume of gas power plants delivered by Wärtsilä (281 MW) was well below the level in the equivalent period (487 MW). A major factor in the latter figure, however, was the delivery of a single 120 MW gas diesel power plant. Gas will continue to gain strongly in popularity as the preferred fuel for decentralized electricity generating plants. In order to increase the market share Wärtsilä is giving priority to gas power plant marketing, product quality, delivery times and flexibility.

#### Service

EUR million	Q3/2000	Q3/1999	Change	
Net sales	171.9	134.9	+27.4%	
	1-9/2000	1-9/1999	Change	1999
Net sales	505.2	417.6	+21.0%	589.9

Wärtsilä's Service division continued to grow strongly also during the third quarter. The thrust of its activities focused on quality of customer service and achieving a better local presence in areas where the installed engine base is growing. This will create a platform for raising market share in new growth markets.

During the third quarter Wärtsilä set up a new company in Bangladesh to support its local base of installed engines and to build up long-lasting relationships with key customers.

#### R&D and Production

E-business solutions made further progress. The first customers are already using Wärtsilä's Spares On-Line, a browser-based spare parts ordering service. The e-business via Internet will be developed in stages and started in February. Wärtsilä presented its e-business strategy and new Internet products at the SMM fair in September. The purpose is both to enhance customer service and to release Wärtsilä's own resources from administrative functions to productive sales and service work.

The thrust of Wärtsilä's R&D is on environmentally sound solutions, an area that has been in progress for several years. Particular attention has been paid in recent years to the issue of visible smoke emitted by cruise vessels. R&D is also focusing on reducing nitrogen oxide emissions and carbon dioxide emissions in line with the Kyoto agreement.

Smokeless engines, lower nitrogen oxide emissions and lower fuel consumption are all possible now thanks to common rail technology, which Wärtsilä is incorporating in both its medium-speed and low-speed engines.

Most of Wärtsilä Power Divisions product lines continue to report high capacity utilization during the third quarter. Streamlining measures will continue especially in France and Italy. Wärtsilä's ongoing Operative Excellence project aims to achieve improvements in total quality and continuous improvement in work processes.

# WÄRTSILÄ GROUP UNAUDITED

## INCOME STATEMENT

EUR million	1-9/2000	1-9/1999 <sup>1)</sup>	1999
Net sales	1,950.0	1,931.2	2,700.0
Other operating income	253.6	159.2	236.6
Expenses	-1,811.6	-1,805.3	-2,540.9
Depreciation and writedowns	-80.9	-84.4	-112.9
Share of profits/losses in associated companies	7.5	-9.5	-10.1
Operating profit	318.6	191.2	272.7
Fin. income and expenses	-33.4	-30.6	-35.7
Profit before extr'y items	285.2	160.6	237.0
Extraordinary items			-2.5
Profit before taxes	285.2	160.6	234.5
Income taxes <sup>2)</sup>	-88.7	-55.2	-95.9
Minority interest	-5.2	-6.2	-8.5
Profit for the financial period	191.3	99.2	130.1

<sup>1)</sup> Prior to 2000 Wärtsilä published its results at four-month intervals.

For this reason 1999 figures are proforma.

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

## BALANCE SHEET

EUR million	30.9.2000	30.9.1999	31.12.1999
Fixed assets	1,015.7	1,107.2	1,217.4
Current assets			
Inventories	656.6	690.6	667.7
Receivables	821.9	960.8	975.8
Cash and bank balances	155.1	108.9	110.3
Total	2,649.3	2,867.5	2,971.2
Share capital	189.7	189.7	189.7
Other shareholders' equity	702.9	631.0	636.8
Minority interest	14.6	155.3	180.4
Provisions	128.3	168.4	173.4
Long-term liabilities	398.8	451.4	471.6
Current liabilities	1,215.0	1,271.7	1,319.3
Total	2,649.3	2,867.5	2,971.2
Interest-bearing liabilities	555.9	7,692.6	794.3
Non-interest-bearing liabilities	1,057.9	960.5	996.6

## FINANCIAL ANALYSIS

EUR million	1-9/2000	1-9/1999	1999
Net cash from operating activities	117.0	100.9	106.9
Net cash used in investing activities	<sup>1)</sup> 80.5	-36.7	-32.1
Net cash used in financing activities	-152.8	-39.2	-59.1
Change in liquid funds	44.7	25.0	15.7

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

## CAPITAL EXPENDITURE

EUR million	1-9/2000	1-9/1999	1999
Group, gross capital expenditure	184.9	145.8	263.8
of which on acquisitions and shares	148.9	97.6	180.0
Decreases in fixed assets	39.7	30.8	58.4
Net capital expenditure	145.2	115.0	205.4

## FINANCIAL RATIOS

	1-9/2000	1-9/1999	1999
Earnings per share 1), EUR	3.53	1.83	2.43
Earnings per share 2), EUR	3.24		
Equity per share, EUR	14.31	12.98	13.09
Solvency ratio 1, %	32.4	32.4	31.4
Solvency ratio 2 3), %	37.2	36.9	35.5
Gearing 1	0.66	0.90	0.90
Gearing 2 3)	0.44	0.67	0.68
Net Interest-bearing debt, EUR mill.	428.4	604.4	676.8

<sup>1)</sup> Excluding possible diluting effect of convertible subordinated debentures and share warrants.

<sup>2)</sup> Including diluting effect of convertible subordinated debentures and share warrants.

<sup>3)</sup> In solvency ratio 2 and gearing 2 shareholders' equity includes the convertible subordinated debentures (EUR 117.2 million).

## PERSONNEL

On average	1-9/2000	1-9/1999	1999
Power Divisions	8,982	8,639	8,472
Imatra Steel	1,282	1,238	1,237
Sanitec <sup>1)</sup>		5,745	5,796
Other operations <sup>2)</sup>	27	51	46
Group	10,291	15,673	15,551
Personnel at end of period	10,202	15,460	17,937

<sup>1)</sup> Sanitec's personnel not included during 2000.

<sup>2)</sup> Wärtsilä Real Estate and Corporate Management.

## CONTINGENT LIABILITIES

EUR million	30.9.2000	30.9.1999	31.12.1999
Mortgages	72.7	130.6	91.0
Chattel mortgages	23.1	5.9	11.9
Total	95.8	136.5	102.9
Guarantees and contingent liabilities			
on behalf of the company	503.6	477.8	440.6
on behalf of assoc. companies	0.0	133.6	95.7
on behalf of others	2.4	3.6	4.9
Leasing obligations	44.0	41.5	47.3
Total	550.0	656.5	588.5

## NOMINAL VALUES OF DERIVATIVE

### INSTRUMENTS

EUR million	Total	of which closed
Interest rate options, purchased	45.6	
Interest rate options, written	34.2	
Interest rate swaps	246.8	
Foreign exchange forward contracts	1,153.5	81.4
Currency options, purchased	10.5	
Currency options, written	9.8	

If all the above instruments had been sold at market prices at the end of the period, the effect would have been EUR -55.1 million.

## IMATRA STEEL

EUR million	Q3/2000	Q3/1999	Change	
Net sales	39.6	32.5	+21.8%	
Operating profit	0.3	0.5	-40.0%	
as % of net sales	0.8	1.5		
	1-9/2000	1-9/1999	Change	1999
Net sales	141.9	125.1	+13.4%	173.0
Operating profit	10.8	6.9	+56.5%	10.8
as % of net sales	7.6	5.5		6.2

Imatra Steel recorded further growth in net sales during the third quarter. Due to normal annual maintenance shut-downs, however, the net sales figure was low and as previous year the result significantly decreased compared to the level of the first part of the year.

Demand for special engineering steels remained favourable. Production volumes in the vehicle industry were high, while the needs of engineering companies and wholesalers also rose. At all Imatra Steel units delivery volumes between January and September were higher than in the same period last year.

The price of scrap was considerably higher during the third quarter than at the same time last year. The average price of steel shipments increased less. The pressure to increase prices remains strong both in special steel bars and components.

## SHAREHOLDERS AND OTHER OPERATIONS

Sanitec contributed an operating profit of EUR 17.9 (17.0) million as a subsidiary during the first quarter and, as an associated company, altogether EUR 8.1 million to Wärtsilä's result during the second and third quarters. Sanitec published its interim report on 2 November 2000. Wärtsilä's share (46.7%) of Sanitec's market capitalization on 29 September 2000 was EUR 247 million. The value of the Sanitec holding in Wärtsilä's balance sheet is EUR 161.8 million.

Assa Abloy publishes its interim report on 13 November 2000. Wärtsilä's share (16.4%) of Assa Abloy's market capitalization on 29 September 2000 was EUR 1,184 million and Assa Abloy's book value in Wärtsilä's balance sheet is EUR 140.0 million. Wärtsilä entered a dividend paid by Assa Abloy of EUR 5.7 million in May.

Wärtsilä Real Estate sold properties and shares in housing companies totalling EUR 11.8 (14.5) million during the period, which yielded a profit of EUR 7.7 (5.7) million. Rental income totalled EUR 4.7 (5.3) million.

## CORPORATE MANAGEMENT

Wärtsilä's Board of Directors approved the resignation of Mr Georg Ehrnrooth, President and CEO, on 13 September 2000 and appointed Mr Ole Johansson (49) MSc (Econ.) as President and CEO of Wärtsilä Corporation. Mr Ehrnrooth will retire as agreed from the beginning of 2001. Mr Raimo Lind MSc (Econ.) was appointed CFO in May 2000. The composition of Wärtsilä's Board of Management was confirmed in September. At the same time Mr Sven Bertlin MSc (Econ.) was appointed Executive Vice President and deputy to the CEO.

## GENERAL MEETINGS

The Annual General Meeting on 23 March 2000 approved payment of a dividend of EUR 0.50 per share in cash as well as an extra dividend of EUR 2.35 per share principally in the form of Sanitec shares. The terms of the convertible debentures and bond warrants were amended corresponding to the amount of the extra dividend. The number of members of the Board of Directors was reduced by one when Mr Carl-Olaf Homén declined re-election. In other respects the Board's composition remained unchanged. The AGM authorized the Board to repurchase and dispose of the company's own shares. The authorization comprises at most 5% of the total amount of shares and votes.

An extraordinary general meeting on 13 September 2000 decided to rename the company and amend §1 of the Articles of Association. The new name is Wärtsilä Oyj Abp in Finnish and Swedish, and Wärtsilä Corporation in English. For this reason Metra's Series A shares became Wärtsilä's A shares, and Metra's B shares Wärtsilä's B shares respectively. New share trading codes for the series, WRTAV and WRTBV, were adopted at the same time.

The extraordinary general meeting also decided to sell all Wärtsilä A and B shares in the common book-entry account on behalf of their owners, i.e. those shares that had not been transferred to the book-entry securities system.

SHARES	1-9/2000	1-9/1999	1999
Share trading in Helsinki, shares	29.5%	19.2%	32.7%
Share trading in Helsinki, votes	14.8%	7.7%	14.5%
Share trading in SEAQ, shares	8.1%	8.5%	9.2%
Shareholders outside Finland at end of period	12.2%	18.7%	16.5%

## Shares on 30 September 2000

	Series A	Series B	Total
Number of shares	13,935,104	40,265,142	54,200,246
Number of votes	139,351,040	40,265,142	179,616,182

## PROSPECTS TO YEAR END

The order intake for Wärtsilä Power Divisions during 2000 has been substantially higher than the previous year. The full-year order intake and orderbook at the end of the year will exceed last year's levels.

The net sales of Power Divisions of the final quarter are estimated to be on the last year's level. The net sales for the full year are expected to grow this year.

The operating profit margin during the final quarter is forecast to improve compared to the first nine months.

Imatra Steel's full-year operating profit is forecast to show a marked improvement on last year's figure.

8 November 2000

Wärtsilä Corporation  
Board of Directors



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