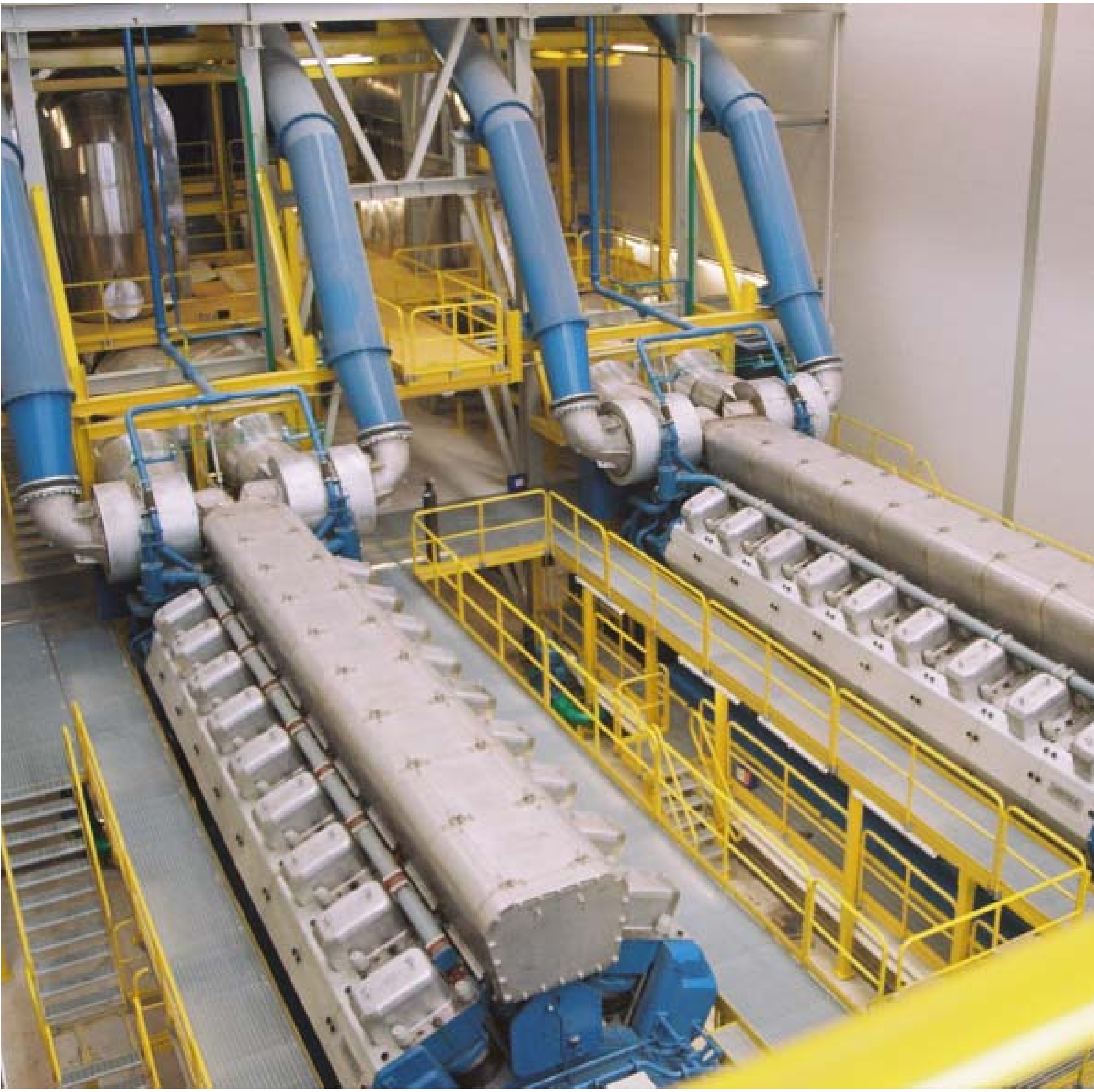
Interim Report

JANUARY-SEPTEMBER 2004



WÄRTSILÄ

Highlights of third quarter 7-9/2004:

- The order intake grew 7.7% on the same period in 2003.
- Net sales decreased 8.2%.
- The operating margin reached 6.0% (4.3) for the Group, for Power Businesses 6.1% (4.7) and for Imatra Steel 4.7% (-2.1).

Highlights of the reporting period 1-9/2004:

- The order intake grew 25.2% to EUR 2,075.4 (1,658.1) million.
- Net sales rose 1.6% to EUR 1,662,0 (1,635.4) million.
- Operating income was EUR 162,0 (47.2) million, which included a one-time capital gain of EUR 107.7 million on the sale of Assa Abloy shares.
- The Power Businesses' operating income was EUR 43.3 (49.2) million and operating margin 2.9% (3.3).
- Imatra Steel's operating income was EUR 11.0 (-1.9) million and operating margin 6.2% (-1.3).
- The Group's earnings per share (EPS) were EUR 1.83 (0.40).
- The order book was on a good level.

Financial outlooks for the Power Businesses and Imatra Steel for full year remains unchanged.

WÄRTSILÄ GROUP IN BRIEF

EUR mill.	7-9/2004	7-9/2003	1-9/2004	1-9/2003	2003
Net sales	559.0	608.7	1,662.0	1,635.4	2,357.5
Operational EBITA[1]	40.0	32.8	74.4	71.8	127.0
Operational EBIT	33.4	26.1	54.3	51.7	100.0
Non-recurring costs & income			107.7	–4.5	–118.5
Operating income	33.4	26.1	162.0	47.2	–18.4
Result before taxes	31.7	19.3	161.2	–34.9	34.4
EPS, EUR	0.29	0.27	1.83	0.40	–0.66

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

GROUP NET SALES AND RESULT

Wärtsilä Group's net sales for the reporting period 1-9/2004 rose 1.6% compared to the first nine months of 2003. The Group's operating income totalled EUR 162.0 (47.2) million, which included a one-time capital gain of EUR 107.7 million on the sale of Assa Abloy shares during the first quarter. The operating income of the Power Businesses amounted to EUR 43.3 (49.2) million. Imatra Steel's EBIT was EUR 11.0 (-1.9) million. Imatra Steel's result in 2003 was burdened by a EUR 4.5 million writedown on fixed assets.

Net financial items were EUR -0.8 (-12.3) million owing to low gearing, higher dividend income compared to last year and a strong cash flow. The Group's result before taxes was EUR 161.2 (34.9) million. Earnings per share (EPS) were EUR 1.83 (0.40).

CAPITAL EXPENDITURE AND CASH FLOW

Capital expenditure in the reporting period amounted to EUR 43.9 (41.7) million. Cash reserves at the close of the period totalled EUR 144.0 (109.1) million. Net interest-bearing loan capital was EUR 185.9 (464.6) million. Cash flow after operating activities increased to EUR 89.6 (62.6) million due to the of good performance and favourable development in working capital during the third quarter.

The solvency ratio stood at 41.6% (37.3) and gearing was 0.22 (0.58).

STRUCTURAL DEVELOPMENT OF THE GROUP

Personnel consultations on discontinuing manufacturing at Turku, Finland and Mulhouse, France were completed in March. In August Wärtsilä sold the product rights of the high-speed Wärtsilä 200 and 220 product family that was produced in Mulhouse. Divestment of the French production unit is also under negotiations. The restructuring continued as planned.

In May Wärtsilä established Ciserv Korea Ltd, a Ciserv group company, in Korea. In June Wärtsilä acquired two Dutch marine electrotechnical repair and service companies, which were renamed Ciserv Europoort BV.

Wärtsilä-CME Zhenjiang Propeller Co Ltd, the joint venture company set up by Wärtsilä and China State Shipbuilding Corporation (CSSC) to manufacture propellers in China, started operating at the beginning of June. The cooperation and production has started well.

Wärtsilä has increased its holding in Japan Marine Technologies Co Ltd from 93.9% to 99.3%. The investment in the shares was altogether EUR 3.9 million.

In June Wärtsilä decided to outsource the global maintenance and support of its information technology applications. The decision underpins the company's aim to enhance operational efficiency.

GROUP NET SALES BY BUSINESSES

EUR mill.	7-9/2004	7-9/2003	Change%
Power Businesses	505.1	568.4	–11.1%
Imatra Steel	54.2	40.6	33.5%
Internal net sales	–0.3	–0.3	
Total	559.0	608.7	–8,2%

EUR mill.	1-9/2004	1-9/2003	Change%	2003
Power Businesses	1,485.4	1,484.9	0.0%	2,155.8
Imatra Steel	177.3	151.1	17.3%	202.7
Internal net sales	–0.7	–0.6		–1.0
Total	1,662.0	1,635.4	1.6%	2,357.5

GROUP OPERATING INCOME BY BUSINESSES

EUR mill.	7-9/2004	7-9/2003
Operational EBIT,		
Power Businesses	30.9	26.9
Imatra Steel	2.5	–0.8
Group operational EBIT	33.4	26.1

EUR mill.	1-9/2004	1-9/2003	2003
Operational EBIT,			
Power Businesses	43.3	49.2	95.0
Imatra Steel	11.0	2.6	5.1
Group operational EBIT	54.3	51.7	100.0
Nonrecurring costs,			
Power Businesses			–130.0
Imatra Steel		–4.5	–4.4
Capital gains	107.7[1]		15.9[2]
Group operating income	162.0	47.2	–18.4

[1] Assa Abloy shares

[2] Polar shares

POWER BUSINESSES: Ship Power, Service and Power Plants				
EUR mill.	7-9/2004	7-9/2003	Change%	
Net sales	505.1	568.4	–11.1%	
Operating income	30.9	26.9	14.7%	
% of net sales	6.1%	4.7%		
Order intake	598.4	555.8	7.7%	
EUR mill.	1-9/2004	1-9/2003	Change%	2003
Net sales	1,485.4	1,484.9	0.0%	2,155.8
Operating income	43.3	49.2		–35.0[1]
% of net sales	2.9%	3.3%		–1.6%
Order intake	2,075.4	1,658.1	25.2%	2,148.7
Order book, end of period	1,870.3	1,405.1	33.1%	1,245.0

[1]Year 2003 includes restructuring provision of EUR 130 million.

POWER BUSINESSES

The third-quarter profitability of the Power Businesses rose clearly due to the efficiency improvements and high activity level of the Group. The operating income of the Power Businesses was 6.1% (4.7) of net sales. The operating income for the whole nine-month period totalled EUR 43.3 million (49.2). The operating margin was 2.9% (3.3). The volume of new orders received during the nine-month period was 25.2% higher than in the comparable period, demand being good in all sectors.

Ship Power				
EUR mill.	7-9/2004	7-9/2003	Change%	
Net sales	131.0	194.4	–32.6%	
Order intake	165.0	127.5	29.4%	
EUR mill.	1-9/2004	1-9/2003	Change%	2003
Net sales	429.1	509.5	–15.8%	686.1
Order intake	560.3	487.6	14.9%	626.4
Order book, end of period	736.0	640.5	14.9%	606.8

Ship Power business

The order intake of the Ship Power Business grew significantly during the third quarter and was 29.4% higher than in the comparable period. The increase during the reporting period was 14.9%. The order book has improved during the whole year. Activity was lively in the markets of importance to Wärtsilä.

Wärtsilä gained significant new orders in Poland and China. In Poland Wärtsilä was contracted to supply for four vessels total packages consisting of medium-speed main and auxiliary engines, propellers including seal protection systems and efficiency rudders. The Chinese order also included a complete integrated propulsion system and auxiliary power based on main and auxiliary engines, reduction gears and controllable pitch propellers. In September Wärtsilä launched a range of Wärtsilä Auxpac generating sets. The launch resulted immediately in orderintake growth, with over 50 units ordered at Chinese shipyards during the third quarter.

In the low-speed sector Wärtsilä gained a large amount of RT-flex engine orders during September.

Service				
	7-9/2004	7-9/2003	Change%	
Net sales, EUR mill.	228.3	218.7	4.4%	
	1-9/2004	1-9/2003	Change%	2003
Net sales, EUR mill.	683.5	653.3	4.6%	885.5
Personnel, end of period	6,303	5,938	6.1%	5,993
Service agreements, MW	9,611	9,780	–1.7%	9,629
O&M agreements, MW	2,596	2,215	17.2%	2,289

Service business

Service net sales grew 4.4% during the third quarter. The increase in net sales for the whole reporting period was 4.6% compared to the same period last year. Wärtsilä has approximately 150 operations and maintenance (O&M) agreements for power plants worldwide covering now almost 2,600 MW, an increase of 17.2% compared to last year. Long-term service and O&M agreements cover more than 12,000 MW, or over 9% of Wärtsilä's active engine base (130 GW).

During 2004 Wärtsilä has signed 30 O&M agreements, of which a third are renewed agreements. Wärtsilä signed new O&M agreements for nine power plants during the third quarter. One O&M agreement was also signed for a marine offshore vessel. Sales of spareparts and service for 2-stroke engines continued to grow.

Wärtsilä now has nine Ciserv companies at strategic maritime locations around the world. The aquisitions of the Dutch service companies in June further strengthens Wärtsilä's special competence in the repair and maintenance of Marine electronical equipments. The development of the Ciserv brand continues.

Power Plants				
EUR mill.	7-9/2004	7-9/2003	Change%	
Net sales	144.0	153.7	–6.3%	
Order intake	175.6	203.7	–13.8%	
Order intake MW				
HFO	337	484	–30.2%	
gas	157	75	109.2%	
BioPower, MWth	31	0		
EUR mill.	1-9/2004	1-9/2003	Change%	2003
Net sales	368.9	316.3	16.6%	577.5
Order intake	807.8	504.6	60.1%	639.3
Order intake MW				
HFO	1,412	1,017	38.8%	1,249
gas	442	158	179.9%	219
BioPower, MWth	74	128	–42.2%	133
Order book, end of period	808.7	462.9	74.7%	357.2

Power Plants business

Net sales of the Power Plants business weakened slightly during the third quarter but grew during the reporting period compared with the same periods last year. The order intake weakened during the third quarter compared with the same period last year. Success in the gas power plant market continued. The order book at the close of the period, EUR 808.7 million, was at a record high level and double that of the level at the end of 2003. The historically

WÄRTSILÄ GROUP UNAUDITED

INCOME STATEMENT			
EUR mill.	1-9/2004	1-9/2003	2003
Net sales	1,662.0	1,635.4	2,357.5
Other operating income	119.5	17.1	37.9
Expenses	–1,548.0	–1,523.4	–2,257.7
Depreciation and write downs	–71.7	–81.6	–156.0
Share of profits/losses in associated companies	0.2	–0.3	0.0
Operating income	162.0	47.2	–18.4
Financial income and expenses	–0.8	–12.3	–15.9
Result before taxes	161.2	34.9	–34.4
Income taxes[1]	–49.7	–10.5	–4.0
Minority interests	–0.6	–0.4	–0.9
Result of the financial period	111.0	24.0	–39.3

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

BALANCE SHEET			
EUR mill.	30 Sept. 2004	30 Sept. 2003	2003
Fixed assets	821.9	949.4	887.3
Current assets			
Inventories	610.2	619.5	555.5
Receivables	749.2	778.6	790.1
Cash and bank balances	144.0	109.1	150.0
Total	2,325.4	2,456.6	2,382.9
Share capital	216.0	208.7	208.8
Other shareholders' equity	651.4	661.7	595.8
Minority interests	7.7	6.2	6.1
Provisions	202.6	122.0	235.1
Long-term liabilities	304.3	239.0	327.2
Current	943.4	1,219.0	1,009.9
Total	2,325.4	2,456.6	2,382.9

GROSS CAPITAL EXPENDITURE			
EUR mill.	1-9/2004	1-9/2003	2003
Investments in securities and acquisitions			
Power Businesses	7.4	1.2	2.6
Other investments			
Power Businesses	32.2	31.3	51.2
Imatra Steel	4.3	9.2	11.6
Group	43.9	41.7	65.4

INTEREST-BEARING LOAN CAPITAL			
EUR mill.	30 Sept. 2004	30 Sept. 2003	2003
Long-terms liabilities	270.7	197.9	288.2
Current liabilities	68.8	374.9	208.6
Convertible subordinated debentures		27.9	27.5
Loan receivables	–9.6	–26.9	–21.2
Cash and bank balances	–144.0	–109.1	–150.0
Net	185.9	464.6	353.2

FINANCIAL RATIOS	1-9/2004	1-9/2003	2003
Earnings per share, EUR	1.83	0.40	–0.66
Diluted earnings per share, EUR	1.83		
Book value of equity /share EUR	14.06	14.13	13.03
Solvency ratio 1, %	41.6	37.3	35.0
Solvency ratio 2, %[1]	41.6	38.6	36.2
Gearing 1	0.22	0.58	0.48
Gearing 2[1]	0.22	0.53	0.43

[1]In year 2003 solvency ratio 2 and gearing 2 shareholders' equity includes the convertible subordinated debentures.

FINANCIAL ANALYSIS			
EUR mill.	1-9/2004	1-9/2003	2003
Cash flow from operating activities			
Operating result	162.0	47.2	–18.4
Depreciations and write downs	71.7	81.6	156.0
Selling profit and loss of fixed assets and other adjustments	–111.1	–6.8	–22.7
Changes in working capital	–2.2	–15.8	96.2
Cash flow from operating activities before financial items and taxes	120.5	106.1	211.1
Net financial income and expenses and paid income taxes	–30.9	–43.5	–19.0
Cash flow from operating activities (A)	89.6	62.6	192.1
Cash flow from investing activities:			
Investments in tangible and intangible assets	–29.5	–31.0	–62.8
Investments in shares and acquisitions	–7.4	–1.2	–2.6
Proceeds from sale of shares	130.3	8.3	7.5
Cash flow from other investing activities	13.5	10.9	35.7
Cash flow from investing activities (B)	106.9	-13.0	–22.2
Cash flow from financing activities:			
Issuance for share capital[1]	24.6	1.0	1.4
New long-term loans	30.0	181.4	303.0
Amortisation and other changes to long-term loans	–40.9	–303,1	–337.0
Paid dividends	–45.0	–104.3	–104.6
Changes in short-term loans and other financing activities	–171.3	98.7	–68.6
Cash flow from financing activities (C)	–202.5	–126.3	–205.8
Change in liquid funds (A+B+C), increase(+)/decrease(-)	–6.0	–76.7	–35.9
Liquid funds at beginning of period	150.0	185.8	185.8
Liquid funds at end of period	144.0	109.1	150.0

[1]Conversion of subordinated debentures.

PERSONNEL			
On average	1-9/2004	1-9/2003	2003
Power Businesses	11 086	10 972	10 976
Imatra Steel	1 217	1 349	1 317
Group	12 303	12 321	12 293
Personnel, end of period	12 380	12 154	12 110

CONTINGENT LIABILITIES			
EUR mill.	30 Sept. 2004	30 Sept. 2003	2003
Mortgages	43.2	52.1	51.7
Chattel mortgages	30.9	34.6	32.5
Total	74.1	86.7	84.2
Guarantees and contingent liabilities			
-on behalf of the company	240.6	253.2	258.9
-on behalf of assoc. companies		1.1	
Leasing obligations	33.3	40.2	51.3
Total	273.9	294.5	310.2

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS		
EUR mill.	Total	of which closed
Interest rate swaps	300.0	160.0
Foreign exchange forward contracts	1,061.5	64.0
Currency options, purchased	96.3	

If all above instruments had been sold at market prices at the end of the period, the effect would be EUR 17.1 million.

high order book was due considerably to the two power plants, with an aggregate value of EUR 361 million, ordered for Iraq in March. The most important orders received in the third quarter were placed in Africa and Asia. Wärtsilä also received a significant bioplant order from Central Europe.

Engine manufacture and technology

The new engine Wärtsilä 46F was launched in September. The target for the new engine is to further strengthen Wärtsilä´s leading position within this power range. Wärtsilä's research and development activities have continued to focus on common rail and gas engine technology. Feedback from the market has been good.

The agreed restructurings have continued according to plan. The current order book and order intake during the past months will secure high capacity utilization.

Imatra Steel

EUR mill.	7-9/2004	7-9/2003	Change %	
Net sales	54.2	40.6	33.5%	
Operating income	2.5	–0.8		
% of net sales	4.7%	–2.1%		
EUR mill.	1-9/2004	1-9/2003	Change %	2003
Net sales	177.3	151.1	17.3%	202.7
Operating income	11.0	–1.9		0.7
% of net sales	6.2%	–1.3%		0.3%

IMATRA STEEL

Imatra Steel's net sales for the reporting period rose 17.3% compared to the same period last year, during which the Billnäs Spring Works was still part of Imatra Steel. The comparable growth in net sales during the period was 21.6%. The growth was a result of improvement in demand and to the fact that it was possible to pass on increased raw material costs to prices.

Operating income between January and September improved to EUR 11.0 (-1.9) million. Last year's result was burdened by a one-time EUR 4.5 million writedown of fixed assets (the comparable result in 2003 was EUR 2.6 million). The third-quarter result was EUR 2.5 (-0.8) million. The improvement in performance was attributable to the company's streamlining measures, improved demand and price increases. During the summer a significant maintenance investment was undertaken at the Kilsta forge.

Demand for special engineering steels continued strong with respect to both forgings and steels. Heavy truck production, in particular, have been continuously rising.

HOLDING IN ASSA ABLOY

During the first quarter Wärtsilä sold its entire holding of Assa Abloy AB (publ.) Series A shares, i.e. 10,546,425 shares, for SEK 116.50 per share, or SEK 1,228.7 million (EUR 133.3 million). Wärtsilä entered a capital gain of EUR 107.7 million on this sale.

Wärtsilä still owns 17,270,350 Assa Abloy B shares, or 4,7% of Assa Abloy's share capital. The market value of this holding at the end of June was EUR 174.3 million and its book value in the Group's balance sheet is EUR 41.8 million.

ANNUAL GENERAL MEETING

The Annual General Meeting, held on 15 March 2004, decided to pay a dividend of EUR 0.75 per share. The meeting decided that the company's Board of Directors would have seven members. The following were elected to the Board: Heikki Allonen, Göran J. Ehrnrooth, Risto Hautamäki, Jaakko Iloniemi, Antti Lagerroos, Bertel Langenskiöld and Paavo Pitkänen.

The firm of authorized public accountants KPMG Wideri Oy Ab was appointed as the company's auditors. The meeting also renewed the Board's authorizations to purchase and dispose of the company's own shares.

BOARD OF DIRECTORS

The Board elected Antti Lagerroos as its chairman and Göran J. Ehrnrooth as the deputy chairman. The Board decided to establish an Audit Committee and a Nomination and Compensation Committee. The Board appointed Antti Lagerroos chairman of the Audit Committee and its other members Heikki Allonen, Risto Hautamäki and Paavo Pitkänen. The Board appointed Antti Lagerroos chairman of the Nomination and Compensation Committee and its other members Göran J. Ehrnrooth and Jaakko Iloniemi.

MANAGEMENT

Lars Hellberg, (45), BSc (Eng.) was appointed Group Vice President, Engine Division, and a member of the Board of Management on 1 June 2004. He follows Sven Bertlin, who continues as Executive Vice President of the Group until his retirement at the end of the year.

OTHER EVENTS

Wärtsilä floated two convertible subordinated debentures in 1994 which together totalled EUR 117.7 million. Of the outstanding loan, EUR 27.5 million at the end of 2003, EUR 1.0 million was converted into Series A and B shares between January and March and EUR 23.6 million between 1 and 19 April 2004. The non-converted balance, EUR 2.8 million, was repaid by the company on 3 May 2004. These conversions raised Wärtsilä's share capital by EUR 7,176,540. The share capital after the increase was EUR 215,951,442 and the total number of shares was 61,700,412 divided into 15,719,725 Series A shares and 45,980,687 Series B shares.

Varma Mutual Pension Insurance Company's holding of Wärtsilä votes decreased below 5%. The change was the result of the aforementioned share capital increase recorded in the Trade Register on 24 May 2004.

In April Fiskars Corporation raised its holding in Wärtsilä Corporation to 20.5% of the shares and 28.1% of the votes.

SHARES AND SHAREHOLDERS	1-9/2004	1-9/2003	2003
Turnover of shares on Helsinki Exchange	42.9%	33.8%	41.9%
Turnover of votes on Helsinki Exchange	19.9%	15.1%	20.2%
Turnover of shares on SEAQ	6.8%	1.1%	1.9%
Outside of Finland and nominee-registered	15.3%	8.1%	8.4%

SHARES 30 September 2004			
	Series A	Series B	Total
Number of shares	15,719,725	45,980,687	61,700,412
Number of votes	157,197,250	45,980,687	203,177,937

SHARE PRICE ON THE HELSINKI EXCHANGES				
1 January-30 September 2004	High EUR	Low EUR	Average1 EUR	Amount traded
Series A	19.60	15.25	18.17	1.545,812
Series B	19.99	14.95	17.69	24,918,772

[1] Trading volume weighted average price.

MARKET CAPITALIZATION			
	30 Sept. 2004	30 Sept. 2003	31 Dec. 2003
EUR mill.	1,168.4	737.7	907.4

IFRS REPORTING

Wärtsilä will adopt IFRS reporting standards from the beginning of 2005. Preparations have proceeded as planned.

SUBSEQUENT EVENTS

Wärtsilä Corporation's Board of Directors has decided to convene an Extraordinary General Meeting for 1 december 2004 during wich the Board will propose payment of an extra dividend of 1 euro per share. The Board will also propose a bonus issue in which one new A share and one new Bshare will be issued for two existing A shares and two existing B shares respectively.

MARKET PROSPECTS

A record number of orders for new ships have been placed during this year. The capacity of large shipyards to handle big vessels is full, especially in Asia. The bulk of shipbuilding capacity has been sold to the end of 2007 and many yards are refraining from marketing berths for 2008. The lack of capacity, the sharp increase in the price of steel and the resulting rise in shipbuilding costs, and the action taken by China to curtail its economic growth will slow the rate of orders for large new vessels. Owing to the lack of capacity in Asia, European shipyards able to build smaller containerships, for example, with short delivery times increased their order books during the first half of the year. As a result, delivery times at the European yards could become longer.

Project activity has grown in the sectors of importance to Wärtsilä's own manufacturing – cruise ships, RoPax and RoRo vessels, LNG carriers and offshore applications. During September five cruise vessels were ordered bringing the total number of orders to eight. Comparable figure for last year is four.

The situation with fully booked yards in Asia and the filling up of yards in Europe is likely to cause a dip in order intake within the next 12 months.

The shift to contract based service continues although spare parts and components still contribute significantly to Wärtsilä's service sales. Sales of spare parts and service products for 2-stroke engines continue to grow, which gives Wärtsilä strong potential to increase its share of the 2-stroke engine service market.

A large part of the net sales of the Power Plants business is consentrated towards the end of the year. Regardless of the high price of oil the order intake and the demand for gas power plants is expected to stay at a good level.

Demand in Imatra Steel's market is expected to continue to remain favourable into next year.

GROUP PROSPECTS 2004

Net sales of the Power Businesses are expected to grow slightly. Wärtsilä's forecast for its full-year result remains unchanged, i.e. profitability is expected to improve slightly compared to 2003. A risk factor that could affect this estimate is the uncertain political situation in Iraq. The EUR 130 million restructuring provision made during the fourth quarter of 2003 to cover the programme is confirmed as sufficient.

Imatra Steel's net sales are expected to increase and its result to improve due to streamlining measures and the improvement in demand.

27 October 2004

Wärtsilä Corporation
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