Power
on Land and
at Sea

Annual Report 2002

FINANCIAL REVIEW 2002

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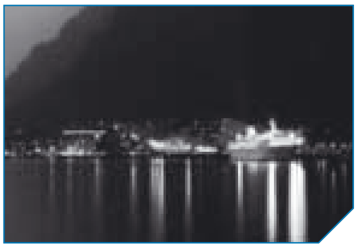
Wärtsilä in Brief



Power on Land and at Sea

Wärtsilä Corporation is the leading global ship power supplier and a major provider of solutions for decentralized power generation and of supporting services. In addition Wärtsilä operates a Nordic engineering steel company Imatra Steel and manages a substantial shareholding to support the development of its core business. Wärtsilä generated net sales of EUR 2.5 billion in 2002. The number of employees is 12,459.

Marine

The Ship Power Supplier

Wärtsilä is the leading supplier of ship machinery, propulsion and manoeuvring solutions for all types of marine vessels and offshore applications.

Power Plants

Power for a Changing World

Wärtsilä is a leading global provider of power plants for decentralized power generation. Wärtsilä provides power plants for baseload, peaking, and combined heat and power applications. Wärtsilä also supplies solutions for gas compression and for oil and gas pumping. The product range comprises gas- and oil-fired power plants with outputs from 1 to 300 MW and biofuelled power plants with outputs from 3 to 25 MW.

Service

The Total Service Provider

Wärtsilä supports its customers throughout the lifecycle of its products by ensuring lifetime efficiency. Wärtsilä's Service business is founded upon the Group's global base of installed engines and power plants. Wärtsilä is close to its customers through subsidiaries in roughly 60 countries.

Imatra Steel

A Skilful Niche Player

Imatra Steel is Wärtsilä's special engineering steel company. Imatra Steel produces round, square and flat special steel bars, forged engine and front axel components, leaf springs and tubular stabilizer bars. The company's customers are European automotive and mechanical engineering companies.

Holdings

Assa Abloy and Wärtsilä Real Estate are the main holdings:

Assa Abloy 7.6%

Wärtsilä Real Estate 100%

www.wartsila.com

Five years in figures

Five years in figures MEUR		2002	2001	2000	1999	1998
Net sales		2,519.0	2,358.7	2,706.8	2,700.0	2,602.6
of which outside Finland	%	96.6	96.5	96.5	95.2	95.5
Exports from Finland		1,363.7	1,153.7	1,337.2	1,008.1	972.4
Personnel on average		12,417	10,846	10,715	15,945	14,021
of which in Finland		3,510	3,511	3,352	3,811	3,867
Order book, Power Divisions		1,206.6	1,516.5	1,624.2	1,314.9	1,210.2
From the income statement						
Depreciation and writedowns		105.4	126.0	103.1	112.9	110.5
Share of profits/losses in associated companies		0.4	0.1	12.0	–10.1	–40.5
Operating profit		188.9	523.9	367.1	272.7	87.6
as a percentage of net sales	%	7.5	22.2	13.6	10.1	3.4
Net financial items		–18.5	–15.2	–31.0	–35.7	–42.7
as a percentage of net sales	%	–0.7	–0.6	–1.1	–1.3	–1.7
Profit before extraordinary items		170.4	508.7	336.1	237.0	44.9
as a percentage of net sales	%	6.8	21.6	12.4	8.8	1.7
Profit before taxes		170.4	502.7	315.7	234.5	41.4
as a percentage of net sales	%	6.8	21.3	11.7	8.7	1.6
Profit for the financial year		121.9	305.7	213.2	130.1	21.7
as a percentage of net sales	%	4.8	13.0	7.9	4.8	0.8
From the balance sheet						
Fixed assets		1,018.7	721.4	978.7	1,217.4	964.6
Current assets						
Inventories		628.1	668.3	539.0	667.7	679.8
Receivables		852.3	830.7	828.7	975.8	853.2
Cash and bank balances		185.8	184.6	118.9	110.3	83.9
Shareholders' equity		953.0	1,071.6	908.0	826.5	742.6
Minority interests		6.5	6.4	14.3	180.4	57.8
Provisions		154.0	183.0	109.4	173.4	102.8
Interest-bearing liabilities		624.3	168.3	485.0	794.3	686.8
Non-interest-bearing liabilities		947.2	975.7	948.5	996.6	991.4
Balance sheet total		2,685.0	2,405.0	2,465.3	2,971.2	2,581.5
Gross capital expenditure		423.3	97.1	207.7	263.8	163.7
as a percentage of net sales	%	16.8	4.1	7.7	9.8	6.3
Research and development expenses		87.6	81.4	81.4	86.9	86.6
as a percentage of net sales	%	3.5	3.5	3.0	3.2	3.3
Dividends paid for the financial year [1]		14.9	29.7	35.2	27.1	20.1
Extra dividend		89.2	208.1	108.4	127.4	64.0
Dividends total		104.1	237.8	143.6	154.5	84.1
Financial ratios						
Earnings per share (EPS)	EUR	2.05	5.53	4.20	2.43	0.45
Dividend per share	EUR	1.75 [1]	4.00	2.65	2.85	1.55
Payout ratio	%	85.4 [1]	72.3	63.1	117.3	344.4
Interest coverage		7.8	12.6	7.4	4.8	2.9
Return on investment (ROI)	%	14.9	43.0	25.4	20.1	9.6
Return on equity (ROE)	%	12.4	33.7	27.6	18.0	–0.4
Solvency ratio 1 [2]	%	36.9	47.3	35.1	31.4	28.3
Solvency ratio 2	%	38.0	48.6	40.2	35.5	33.2
Gearing 1 [2]		0.50	0.01	0.60	0.90	1.05
Gearing 2		0.46	-0.02	0.40	0.68	0.75
Equity per share	EUR	15.56	17.55	14.59	13.09	11.54

[1] Proposal of the Board of Directors. Financial ratios calculated from total amount of dividend.
[2] Please refer to the Calculation of Financial Ratios on page 5.

Calculation of Financial Ratios

Return on investment (ROI)

$$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities - provisions, average over the year}} \times 100$$

Return on equity (ROE)

$$\frac{\text{Profit before extraordinary items - taxes for the financial year}}{\text{Shareholders' equity + minority interests, average over the year}} \times 100$$

Interest coverage

$$\frac{\text{Profit before extraordinary items + depreciation + interest and other financial expenses}}{\text{Interest and other financial expenses}}$$

Solvency ratio[1]

$$\frac{\text{Shareholders' equity + minority interests}}{\text{Balance sheet total - advances received}} \times 100$$

Gearing [2]

$$\frac{\text{Interest-bearing liabilities - cash and bank balances}}{\text{Shareholders' equity + minority interests}}$$

Earnings per share (EPS)

$$\frac{\text{Profit before extraordinary items - income taxes - minority interests}}{\text{Adjusted number of shares over the financial year}}$$

Equity per share

$$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the financial year}}$$

Dividend per share

$$\frac{\text{Dividends paid for the financial year}}{\text{Adjusted number of shares at the end of the financial year}}$$

Payout ratio

$$\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$$

Effective dividend yield

$$\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the financial year}} \times 100$$

Price/earnings (P/E)

$$\frac{\text{Adjusted share price at the end of the financial year}}{\text{Earnings per share (EPS)}}$$

Price/book value per share (P/BV)

$$\frac{\text{Adjusted share price at the end of the financial year}}{\text{Equity per share}}$$

[1]Solvency ratio 2, shareholders' equity includes subordinated debentures (EUR 27.9 mill.)
[2]Gearing 2, shareholders' equity includes subordinated debentures (EUR 27.9 mill.)

Review by the Board of Directors 2002

Net sales and result

Wärtsilä Group's net sales rose to EUR 2,519.0 (2,358.7) million. Net sales of the Power Divisions was EUR 2,319.9 (2,174.3) million and Imatra Steel's net sales totalled EUR 200.4 (186.4) million.

The Group recorded an operating profit of EUR 188.9 (523.9) million, which included a gain of EUR 111.1 million on the sale of Assa Abloy shares. The previous year's operating profit included non-recurring gains of altogether EUR 550.4 million on the sale of Assa Abloy and Sanitec shares. Operational EBIT of the Power Divisions was EUR 74.6 (87.8) million, giving an operating margin of 3.2% (4.0). Imatra Steel's profitability decreased as well.

Net financial expenses amounted to EUR 18.5 (15.2) million, or 0.7% (0.6) of net sales. Dividends totalling EUR 7.1 (19.9) million were entered under financial items, the largest of which was the Assa Abloy dividend. Dividend income in the previous year also included dividends paid by Sanitec. The profit before extraordinary items was EUR 170.4 (508.7) million.

Taxes totalled EUR 47.6 (194.7) million, including EUR 54.1 (219.5) million in taxes for the financial year. The effect of non-recurring financial items in taxation amounted to EUR 32.3 (196.1) million and deferred tax assets were EUR +11.3 (29.5) million.

Wärtsilä recorded a net profit of EUR 121.9 (305.7) million. Earnings per share (EPS) were EUR 2.05 (5.53), which included non-recurring items of EUR 1.33 (4.13). Return on investment (ROI) was 14.9% (43.0) and return on shareholders' equity (ROE) was 12.4% (33.7).

Financing and capital expenditure

Wärtsilä's cash flow before acquisitions was clearly positive and the Group's financial position was good. Cash reserves at the close of the period totalled EUR 185.8 (184.6) million. Net interest-bearing loan capital increased to EUR 430.6 (-56.5) million due to acquisitions and payment of the extra dividend. The solvency ratio was 36.9% (47.3) and gearing was 0.50 (0.01). Treating the convertible subordinated debentures as shareholders' equity the solvency ratio was 38.0% (48.6) and gearing was 0.46 (-0.02).

Capital expenditure during the period amounted to EUR 423.3 (97.1) million, which comprised EUR 348.6 (29.6) million on investments in shares and EUR 74.7 (67.5) million on production investments.

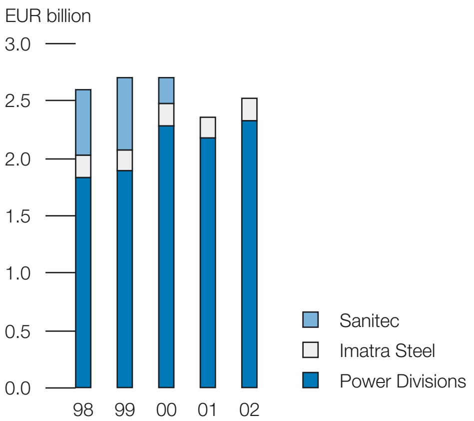
In January Wärtsilä concluded the agreement to acquire John Crane-Lips, a leading global supplier of marine propulsion systems. Wärtsilä took over the company in April. The acquisition cost was EUR 361.2 million.

Several locally prominent service companies were acquired during the year to bolster the Service division's position as a total service provider. The acquisition of the marine engine repair and reconditioning company Metalock Singapore Ltd was closed in May. CGL Industries Ltd, a Canadian company specializing in engine component repairs, was acquired in September. The acquisition of JMC Marine A/S, a Danish supplier of repair services for propulsion systems, was concluded in November. All these companies were renamed Ciserv. Altogether EUR 13.7 million was devoted to Ciserv company acquisitions during the year.

Depreciation totalled EUR 105.4 (126.0) million, which included write downs totalling EUR 2.3 million and EUR 22.8 million in amortization of goodwill.

Research and development expenditure in the Power Divisions totalled EUR 85.9 (79.8) million, which represented 3.7% (3.7) of consolidated net sales. Imatra Steel's R&D expenditure was EUR 1.7 (1.7) million.

Development of net sales



Net sales

MEUR	2002	2001	Change-%
Marine	763.4	595.1	28.3 %
Power Plants	666.0	760.6	–12.4 %
Service	843.4	790.4	6.7 %
Other operations	47.1	28.2	67.0 %
Imatra Steel	200.4	186.4	7.5 %
Intragroup sales	–1.3	–2.0	
Group	2,519.0	2,358.7	6.8 %

Changes in Group structure

John Crane-Lips has been consolidated since 1 April 2002. The operations acquired from Metalock Singapore Ltd have been consolidated from 1 August 2002, CGL Industries Ltd from 1 October 2002 and JMC Marine A/S from 15 November 2002.

Two offers were made to minority shareholders of Wärtsilä's subsidiary Wärtsilä India Ltd to buy the outstanding shares in this company. Wärtsilä's holding in Wärtsilä India Ltd increased from 84.8% to 89.6% as a result.

The Power Divisions

Net sales of the Power Divisions rose to EUR 2,319.9 (2,174.3) million, an increase of 6.7% on the previous year. This growth was due to the John Crane-Lips acquisition. Operational EBIT was EUR 74.6 (87.8) million and the corresponding operating margin was 3.2% (4.0).

Power plants and marine engines totalling 3,694 MW (3,794) were delivered to customers. New orders amounting to EUR 1,882.8 (2,040.4) million were received during the year. The fall in order intake was caused by a significant reduction in orders for power plants. The order intake for marine engines, by contrast, picked up somewhat during the final quarter of the year. The year-end orderbook was at a clearly lower level than one year earlier, EUR 1,206.6 (1,516.5) million.

Further adjustment measures were put into effect during 2002. The closure of the Zwolle factory in the Netherlands and the transfer of production and technology to Italy proceeded as planned. Component manufacture was handed over to an outside supplier at the end of the year. The Zwolle facility now concentrates on service and it will also take over certain service functions from Switzerland.

Megawatts delivered	2002	2001	Change-%
Power Plants, total	1,387	1,449	–4.3
BioPower, heat energy	87		
Marine, own deliveries	2,220	2,346	–5.4
Wärtsilä total	3,694	3,794	–2.6
By licensees	2,660	2,378	11.9
Wärtsilä and licensees total	6,354	6,172	2.9

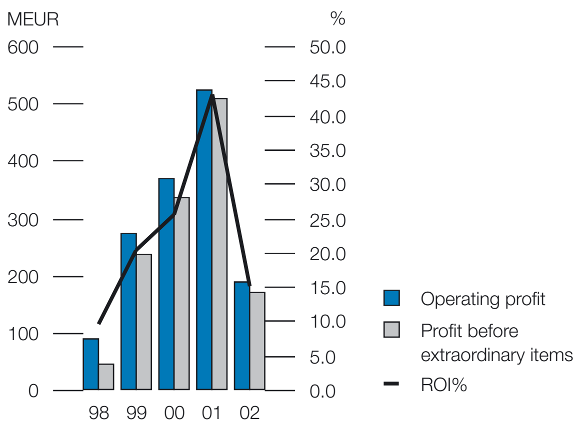
Marine

After a difficult year in 2002 the shipbuilding market is showing positive signs, evidence of which is the number of new orders for cargo vessels. Orders for bulk carriers doubled compared to the previous year and significant growth was also seen in orders for tankers and containerships at the end of the year. The market for large cruise ships and passenger vessels continues to be quiet and only small passenger ferries are in demand. Global shipyard orderbooks remained relatively unchanged during the final quarter of the year. Japan and South Korea continue to be the world's largest shipbuilding countries, whereas growth was strongest in China.

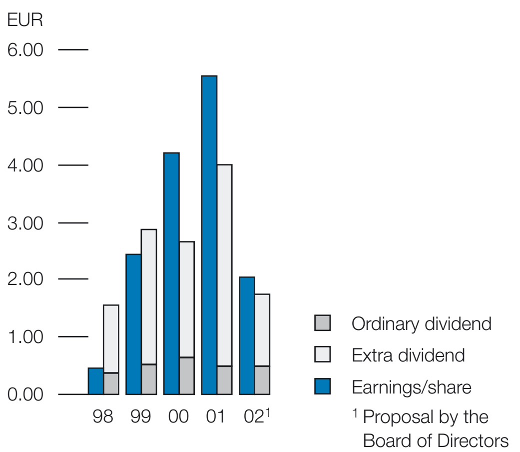
Marine's order intake has started to recover following market growth in autumn 2002. The fourth-quarter order intake was almost twice as high as in the last three months of 2001. The year-end order book stood at EUR 617.7 (769.6) million. Marine's net sales grew 28.3%. The consolidation of Wärtsilä Propulsion from 1 April 2002 raised net sales and order intake.

Wärtsilä's market share in medium-speed main engines was 34% (37) and in low-speed main engines 25% (26) between June 2001 and May 2002 based on statistics released by Diesel & Gas Turbine Worldwide. The total marine engine market decreased by 34% in the same period to 18,155 MW.

Result



Earnings/share Dividend/share



Wärtsilä has become a leading global supplier of ship power and propulsion systems after its acquisition of John Crane-Lips. Now called Wärtsilä Propulsion, this company raised Wärtsilä Marine division's net sales by 25.3%. The integration of Wärtsilä Propulsion with the Marine division proceeded according to plan. The reaction of the markets to the acquisition has been positive, especially in Asia.

In September Wärtsilä and Mitsubishi Heavy Industries Ltd in Japan reached agreement on joint development of a new low-speed marine diesel engine in response to market demand for high-efficiency, compactness and environmental requirements. The new engine will complement Wärtsilä's product range and be suitable for several types of marine vessels.

Wärtsilä received significant orders for low-speed engines at the end of the year. Sulzer main engines will be supplied for six containerships under construction for the German shipowner Hamburg-Süd and, similarly, for eight containerships ordered by the German company Nordcapital. These engines will be manufactured by Wärtsilä's licensees.

Wärtsilä shipped Wärtsilä and Sulzer engines totalling 2,220 MW (2,346) in 2002. Its licensees supplied low-speed Sulzer engines amounting to a further 2,660 MW (2,378).

Power Plants

Global economic uncertainty throughout 2002, the problems experienced by energy companies, increases in fuel prices, and the growing threat of war in the Persian Gulf towards the year end all had a negative impact on power plant investments. The interest of financiers abated and decisions on new projects were postponed despite the fact that in many countries electricity production cannot meet regional needs or intermittent peak demand.

The most active market for Wärtsilä was Latin America. The North American market slackened very substantially compared to the previous year. Nonetheless a reasonable volume of investments continued to be made in individual countries in Europe, Asia and Africa.

Interest in Wärtsilä's biofuelled power plants grew considerably during 2002 and this could expand the order intake during 2003.

Wärtsilä has also developed solutions for mechanical applications, such as oil pumping and gas compression, that are designed to run on crude oil, fuel oil or natural gas. During 2002 Wärtsilä received a significant order for gas-engine-driven pumping units totalling 100 MW for a crude oil pipeline in Turkey.

Orders for gas power plants were also gained in Japan, the USA, Pakistan, Columbia, Hungary, Russia and Chile. The largest orders for heavy fuel oil power plants came from Brazil, Senegal, Ecuador, India, Taiwan and Russia. Biopower plants were ordered in Finland, Sweden, Russia and the Baltic states.

Wärtsilä has reorganized its Power Plants division in order to reduce fixed costs and to increase flexibility in the face of changing market conditions. The new functional organization takes effect in March 2002.

The total market for HFO engines and gas turbines declined by 7% between June 2001 and May 2002 according to Diesel & Gas Turbine Worldwide. Wärtsilä's market share was 46% (50). The market for small power plants (unit size 1-60 MW) decreased 66% to 5,915 MW. Wärtsilä's share of this market segment during the same period was 315 MW (398).

Operating profit	MEUR		EBIT %		ROI %	
	2002	2001	2002	2001	2002	2001
Power Divisions[1]	74.6	89.4	3.2	4.1	7.7	11.1
Imatra Steel	3.2	6.4	1.6	3.4	2.9	6.0
Operational EBIT	77.8	95.8	3.1	4.1	7.1	10.7
Non-recurring expenses, Power Divisions		–122.4				
Capital gains[2]	111.1	550.4				
Group	188.9	523.9	7.5	22.2	14.9	43.0

[1] Includes other operations in 2001 totalling EUR 1.6 million.
[2] In 2002 Assa Abloy, in 2001 Assa Abloy and Sanitec.

The volume of power plants delivered by Wärtsilä in 2002 was 1,387 MW (1,449). This comprised oil-fuelled power plants totalling 1,167 MW (982) and gas power plants of 220 MW (467).

The power plant order intake decreased during the final quarter to EUR 95.7 (226.5) million. The order intake for the whole of 2002 was EUR 427.9 (658.6) million.

Service

Net sales of the Service division continued to grow, in the final quarter 7.6%, and for the whole year 6.7%. Although the growth did not reach the long-term target, it can be considered relatively high in the prevailing market conditions.

The aggregate output of engines covered by Wärtsilä service agreements now exceeds 11,800 MW, or 9% of Wärtsilä's installed engine base.

The volume of operation and maintenance (O&M) agreements increased 21.1% on the previous year. Wärtsilä signed its 100th O&M agreement in 2002 and these agreements currently cover over 2,000 MW of power plant output.

Three new Ciserv companies were acquired during the year, each of which brings specialist expertise in marine engine service. The main goal of the Ciserv group is to provide total marine service with the widest possible range of customized repair and reconditioning services for 2-stroke engines and ship power systems.

The Wärtsilä Land and Sea Academy was set up and started to provide training for both marine and power plant customers. Wärtsilä concluded its first large training agreement with Odfjell ASA, which specializes in logistics services for special chemicals.

In 2002 Service concentrated on developing new service locations and on accelerating deliveries.

Research and Development

Wärtsilä's technology strategy emphasizes technological leadership and innovative technology investments. In 2002 Wärtsilä set up the Technology Forum as a platform to support its core technologies in order to safeguard Wärtsilä's leading position and technical competitiveness in the long term.

A new area of research for Wärtsilä during the year was the start of the co-operation with Danish technology company Haldor Topsøe in the development of fuel cells.

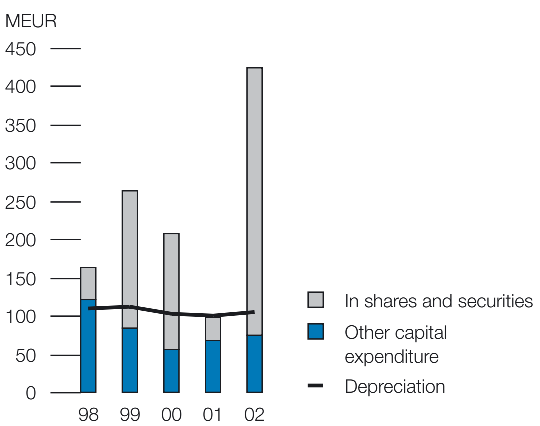
Engine Manufacture

Within Wärtsilä Power Divisions, the Technology and Manufacturing divisions were merged at the beginning of April into the new Engine division. This placed engine design, development, manufacturing and supervision of these functions within the same organization.

The capacity load of the factories in 2002 was lower than one year earlier. Production volume was good at the Vaasa factory in Finland and at Trieste in Italy. The first Wärtsilä 26 and Wärtsilä 38 engines were shipped from the Trieste factory at the end of 2002 as planned following the termination of new engine manufacturing at the Zwolle factory. At the end of 2002 production personnel at the Turku factory were laid off temporarily owing to weak demand for Wärtsilä 46 engines.

The Finnish Association of Logistics voted Wärtsilä Contractor of the Year in 2002.

Gross capital expenditure



Gross capital expenditure

MEUR	2002	2001
Investments in securities and acquisitions		
Power Divisions	348.6	21.8
Imatra Steel	0.0	7.8
Total	348.6	29.6
Other investments		
Power Divisions	58.7	56.8
Imatra Steel	16.0	10.7
Total	74.7	67.5
Group	423.3	97.1

Technology and licensee support functions were combined in Winterthur, Switzerland, in mid-October, making it possible to improve customer service and reduce personnel.

The focus of Wärtsilä's R&D activities is on environmentally sound combustion and engine technology. The first common rail 2- and 4-stroke engines have now reached 6,000 operating hours in marine vessels. Several such engines were ordered during the year and Wärtsilä is currently modifying this technology for its larger engine types.

Raising engine efficiency and testing of various alternative fuels continue to receive priority. Several high-efficiency engines were launched during the year. The first Wärtsilä 32DF dual-fuel engine was started up and delivered for an offshore application, and the first Wärtsilä 50DF was sold. Co-operation was started with Mitsubishi Heavy Industries on joint development of the new RT-flex 50 C engine.

Imatra Steel

Demand for special engineering steels remained weak throughout 2002 with shipments of these steels declining in Europe by some 10% on the previous year. Heavy truck production fell approximately 6% and the number of vehicle registrations decreased by about 13% in Europe compared to 2001. Car registrations, likewise, declined by roughly 4%. Demand in the mechanical engineering industry and among wholesalers stayed weak also, as hopes for economic recovery were put back to 2003.

Imatra Steel's net sales totalled EUR 200.4 (186.4) million, up 7.5% on the previous year. This growth took place in the company's forging operations where the acquisition of Scottish Stampings strengthened Imatra Kilsta's position as a leading world manufacturer of forged components for the automotive industry. Delivery volumes at the Imatra Steel Works and the Billnäs Spring Works decreased, however. Imatra Steel's operating profit was lower than in 2001, totalling EUR 3.2 (6.4) million.

The result was depressed by an increase in energy and scrap metal prices in the autumn, which created pressure to raise steel and also component prices. A further burden on the result was a programme started at the Imatra Steel Works to reduce personnel levels to match the lower delivery volume. A EUR 1.6 million provision was entered in the 2002 accounts to cover the non-recurring costs of these reductions.

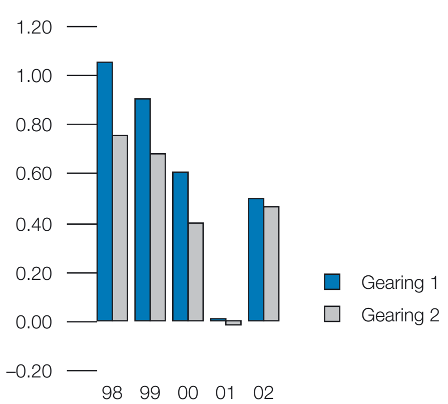
The first stage of the modernization of the Imatra Steel Works' base metallurgical process, the upgraded heavy rolling mill, was completed on schedule in August. The purpose of the EUR 21 million programme is to safeguard the competitive efficiency of the base metallurgical process line and the quality of its products. The second stage, renewal of the continuous casting line and bloom furnace, will be completed in summer 2003.

Holdings

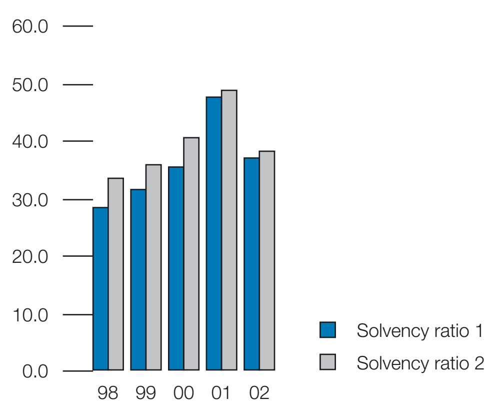
Wärtsilä sold 10 million Assa Abloy shares at the end of May, recording a capital gain of EUR 111.1 million or EUR 1.33 per share after tax. Following this sale and Assa Abloy's issue of 10 million new shares Wärtsilä's holding in the company is 7.6%. The market capitalization of this holding at the end of the year was 99.50 Swedish krona/share totalling EUR 302.4 million. Its book value in the consolidated balance sheet is EUR 67.4 million.

Wärtsilä Real Estate sold properties and shares in housing companies totalling EUR 16.8 (10.8) million in 2002, which yielded a profit of EUR 0.4 (6.3) million.

Gearing



Solvency



The largest single real estate divestment was the sale of the head office building. Wärtsilä is renting part of the business premises to be expanded under long-term leases. The book value of the real estate portfolio excluding the properties in use by the Group itself amounted to EUR 21.9 (21.4) million at the close of the period.

Corporate management and personnel

In December Kari Hietanen was appointed to Wärtsilä's Board of Management on 1 January 2003 with responsibility for legal matters and personnel. He also acts as the Company Secretary and secretary to the Board of Management.

The Group had 12,417 (10,846) employees on average during the year and 12,459 (11,122) at the year end. The Power Divisions had 11,068 (9,738) employees at the year end. The increase was mostly due to the John Crane-Lips acquisition. The number of employees in the Service division rose due to an increase in operations and maintenance personnel and through acquisitions. Personnel negotiations related to restructuring measures are in progress that will reduce personnel in the Power Divisions by altogether 800 employees; of this figure approx. 370 reductions took effect in 2002 and 200 will result from reorganization in the Power Plants division.

Debentures and option scheme

In March 1994 Wärtsilä floated two convertible capital notes issues, each of the same amount and together totalling EUR 117.7 million. One is convertible into Series A and Series B shares, and the other into Series B shares. Conversions based on these notes during 2002 amounted to 1,426 Series A shares and 13,826 Series B shares, carrying altogether 14,260 votes and 13,826 votes respectively. The loan principal corresponding to the conversions was EUR 206,871.15. The total loan principal remaining unconverted into shares was EUR 7,664,323.81 in the case of the notes convertible into both A and B shares, and EUR 20,196,006.20 in the case of the notes convertible into only B shares.

Conversions and subscriptions during 2002 raised Wärtsilä's share capital by altogether EUR 53,382. Following this increase Wärtsilä's share capital is EUR 208,141,892 and there are altogether 59,469,112 shares: 15,415,855 Series A shares and 44,053,257 Series B shares. The A shares carry altogether 154,158,550 votes and the B shares 44,053,257 votes.

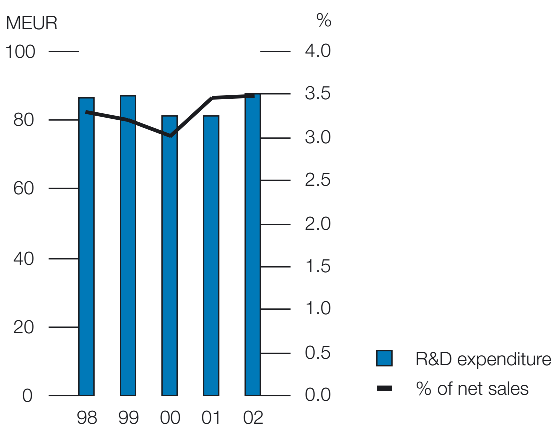
Based on the decision of the AGM on 12 March 2002 800,000 warrants were issued to key persons in the Wärtsilä Group and they may be exercised to subscribe for the same number of Wärtsilä B shares. The share subscription price is EUR 17.42 and any extra dividends distributed before the subscription of shares will be deducted from this price.

The warrants may be exercised provided that the company reaches a minimum operating margin of 4% in 2003. In this case the share subscription will begin on 1 April 2004 and end on 31 March 2008.

General meetings

The Annual General Meeting on 12 March 2002 approved the distribution of a normal dividend of EUR 0.50 per share and an extra dividend of EUR 3.50 per share. The terms of the convertible subordinated debentures and the bond with warrants were changed corresponding to the amount of extra dividend. The meeting decided that the Board of Directors would have six members. Göran J. Ehrnrooth, Georg Ehrnrooth and Vesa Vainio, who were in turn for retirement from the Board,

R&D expenditure



Interest-bearing loan capital

MEUR	2002	2001
Long-term liabilities	281.2	148.9
Current liabilities	343.1	19.3
Convertible subordinated debentures	27.9	28.1
Loan receivables	–35.7	–68.3
Cash and bank balances	–185.8	–184.6
Net	430.6	–56.5

were re-elected. Christoffer Taxell announced that he would not stand for re-election. The terms of office of the other Board members, Robert G. Ehrnrooth, Jaakko Iloniemi and Paavo Pitkänen, continued.

Authorized public accounts KPMG Wideri Oy Ab were appointed to be the company's auditors.

An Extraordinary General Meeting was held on 25 September 2002 decided that the term of office of the Board members should be one year. The meeting increased the number of Board members by two and elected Antti Lagerroos and Bertel Langenskiöld as the new members.

Robert G. Ehrnrooth continued as Chairman of the Board and Vesa Vainio as deputy chairman.

Purchase of own shares

The Annual General Meeting on 12 March 2002 authorized the Board for one year to repurchase the company's own shares in public trading on the Helsinki Exchanges at the prevailing price, disapplying shareholders' pre-emptive subscription rights. At most 5% of all the shares and votes may be repurchased. This authorization also includes the right to dispose of the company's shares repurchased in this manner at a price at least equal to the share price prevailing on the Helsinki Exchanges at the time of surrender, disapplying shareholders' rights. These authorizations have not been exercised.

Proposals to the Annual General Meeting 2003

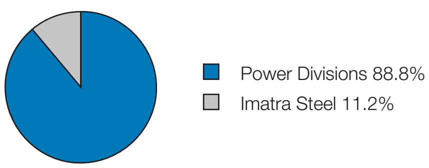
The Board proposes to the Annual General Meeting on 12 March 2003 that a dividend of EUR 0.25 per share and an extra dividend of EUR 1.50 per share be distributed on the financial year ended 31 December 2002.

With respect to the extra dividend, the Board proposes that the conversion ratio of the 1994 convertible subordinated debentures and the subscription price of the Wärtsilä shares subscribable under the warrants attached to the 1996 bond with warrants be changed corresponding to the amount of the extra dividend.

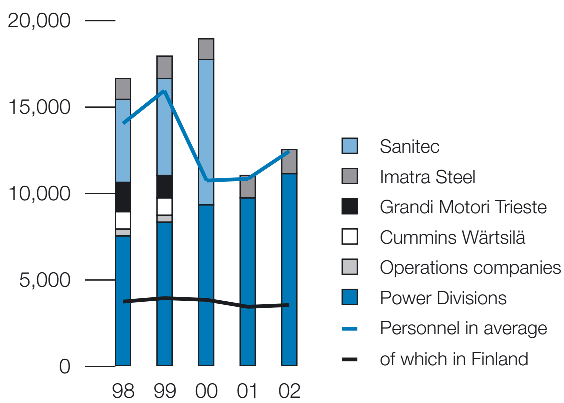
Furthermore, the Board proposes that the AGM would authorize the Board during a period of one year from the resolution of the AGM to repurchase the Company's own shares of series A and series B in proportion to the number of shares in each class of shares. Such repurchase shall be carried out in public trading at the prevailing market price by using distributable funds, and it may be completed in other than the proportion of the shareholdings of the shareholders. The aggregate nominal value and voting rights of the shares repurchased shall not exceed 5% of the share capital and of all voting rights. The authorization may be used for repurchasing shares for the purpose of being used as consideration in future mergers and acquisitions or industrial reorganisations or for the development of the capital structure of the Company or as part of its management incentive system. Shares may be acquired for other consideration than cash. The corresponding previous authorization given by the AGM on 12 March 2002 would be revoked.

The Board proposes that the AGM would authorize the Board during a period of one year from the resolution of the AGM to dispose of any or all the shares repurchased by virtue of the above mentioned authorization in one or several lots, and by deviating from the pre-emptive rights of the shareholders. The aggregate nominal value and voting rights of shares to be disposed of shall not exceed 5% of the share capital and of all voting rights. Shares may be disposed of as consideration in mergers and acquisitions or industrial reorganisations or in order to develop the capital structure of the Company or as

Personnel by division 31 Dec. 2002



Personnel by division



part of its management incentive system. Shares must be disposed of at the market price prevailing in public trading. Shares may be disposed of for other consideration than cash. The corresponding previous authorization given by the AGM on 12 March 2002 would be revoked.

Market conditions

Following a sluggish start to the year order activity in the market recovered and shipyard orderbooks at the end of 2002 reached the previous year-end level. A recovery in freight volumes indicates brighter prospects than last year. New stipulations affecting tankers and bulk carriers will raise demand for these vessels. There are also signs of recovery in the containership market, evidence of which are the significant orders received by Wärtsilä at the end of the year. The cruise ship market, where Wärtsilä has traditionally held a strong position, has been extremely quiet over the past couple of years and no significant increase in activity is foreseen.

Conditions in Wärtsilä's power plant markets continue to be uncertain. Purchase decisions are expected to remain slow, especially during the first half of the year, which will lead to further project delays. However, Wärtsilä is currently in negotiations on a number of largish HFO plants and a lot of smaller gas- and oil-fuelled plants. Demand for power plants designed to operate on renewable fuels is expected to increase orders for Wärtsilä's biopower plants during the year.

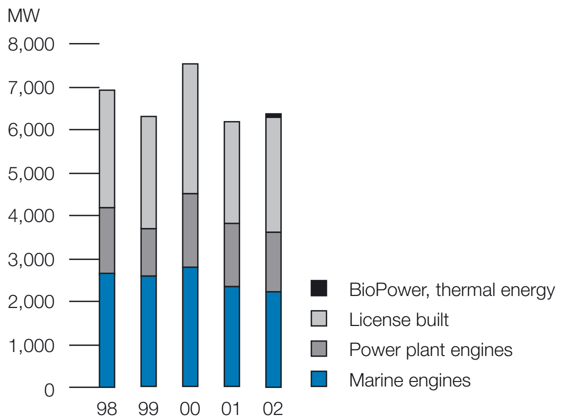
Prospects for 2003

The order intake of Wärtsilä's Power Divisions decreased in 2002 since considerably fewer orders for power plants were received than one year earlier. However, the intake of marine orders picked up during the fourth quarter. The Power Divisions' year-end order book is clearly lower than one year earlier. The Marine orderbook is satisfactory but the Power Plants orderbook is weak.

Net sales of the Power Divisions in 2003 is expected to grow slightly, the strongest growth being evident in the Service business. The profitability will still not reach the 7-8% target set for the Power Divisions because reaching this target will require recovery in the global economy and a consequent significant increase in demand. For this reason streamlining action will therefore be further accelerated as required by market conditions. New adjustment measures have already been started, notably in the Power Plants division. Profitability of the Power Divisions is expected to show a slight improvement on 2002.

For Imatra Steel, 2003 has begun under the continuing shadow of uncertain market prospects. Truck and car production, and demand for special engineering steels likewise, are forecast to begin rising during the second half of the year. Imatra Steel is expected to report an increase in net sales, due mainly to expansion of the forging business, and improved profits in 2003 as a result of its streamlining measures.

Megawatts delivered



Income Statement

Group income statement					
MEUR	Note	2002	%	2001	%
Net sales	1,2	2,519.0	100.0	2,358.7	100.0
Change in inventories of					
finished goods & work in progress		–72.0		84.7	
Production for own use		1.3		1.6	
Other operating income	3	138.3		571.9	
Materials and services					
Materials and consumables					
Purchases during the financial year		–977.7		–1,138.4	
Change in inventories		19.0		20.9	
External services		–523.6		–397.3	
		–1,482.3		–1,514.8	
Personnel expenses	4	–548.9		–490.0	
Depreciation and writedowns	5	–105.4		–126.0	
Other operating expenses		–261.6		–362.4	
Share of profits/losses in associated companies		0.4		0.1	
Operating profit		188.9	7.5	523.9	22.2
Financial income and expenses	6				
Income from financial assets		7.1		20.0	
Interest income and other financial income		15.1		26.0	
Exchange gains and losses		–7.1		–9.2	
Interest expenses and other financial expenses		–33.6		–51.9	
		–18.5		–15.2	
Profit before extraordinary items		170.4	6.8	508.7	21.6
Extraordinary items	7				
Extraordinary expenses				–6.0	
Profit before taxes		170.4		502.7	
Income taxes	8	–47.6		–194.7	
Minority interests		–1.0		–2.2	
Profit for the financial period		121.9	4.8	305.7	13.0

Financial analysis

Group financial analysis		
MEUR	2002	2001
Cash flow from operating activities		
Operating profit	188.9	523.9
Adjustments for:		
Share of profits/losses in associated companies	–0.4	–0.1
Depreciation and writedowns	105.4	126.0
Selling profit and loss of fixed assets	–112.5	–555.7
Other adjustments		0.6
Cash flow before changes in working capital	181.3	94.5
Changes in working capital		
Current assets, non-interest-bearing, increase(-)/decrease(+)	23.3	9.0
Inventories, increase (-)/decrease(+)	56.1	–111.4
Current liabilities, non-interest-bearing, increase(+)/decrease(-)	–148.4	50.8
	–69.0	–51.5
Cash flow from operating activities before financial items and taxes	112.3	43.0
Interest and other financial expenses	–45.2	–45.8
Interest and other financial income from operating activities	15.0	59.2
Income taxes	–26.7	–22.8
Cash flow from operating activities before extraordinary items	55.4	33.6
Cash flow from extraordinary items		–6.0
Cash flow from operating activities (A)	55.4	27.6
Cash flow from investing activities:		
Investments in subsidiary shares	–347.7	–27.7
Investments in other shares	–7.0	–1.9
Investments in other tangible and intangible assets	–74.7	–60.8
Proceeds from sale of shares	153.0	772.1
Proceeds from sale of tangible and intangible assets	18.7	3.7
Loan receivables, increase(-), decrease(+)	–1.2	0.8
Interest income from investments		0.1
Dividends received from investments	6.3	19.9
Taxes on sale of shares	–33.9	–201.4
Cash flow from investing activities (B)	–286.5	504.8
Cash flow after investing activities	–231.1	532.5
Cash flow from financing activities:		
Issuance of share capital		0.7
Loans receivable, increase (-)/decrease(+)	6.2	17.0
Current loans, increase (+)/decrease(-)	254.0	–332.8
New long-term loans	472.0	0.6
Amortization and other changes to long-term loans	–276.1	–1.8
Paid dividends	–238.6	–144.8
Other changes	14.9	–5.7
Cash flow from financing activities (C)	232.3	–466.8
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	1.3	65.7
Liquid funds at beginning of period	184.6	118.9
Liquid funds at end of period	185.8	184.6

Balance sheet

Balance sheet, ASSETS MEUR	Note	31 Dec. 2002	%	31 Dec. 2001	%
Fixed assets	9				
Intangible assets					
Intangible rights		17.2		7.6	
Goodwill on consolidation		390.2		119.5	
Other long-term expenditure		30.6		23.9	
		438.0	16.3	151.0	6.3
Tangible assets					
Land and water		38.7		42.7	
Buildings and structures		136.9		165.4	
Machinery and equipment		222.5		173.4	
Other tangible assets		31.0		15.8	
Advance payments and construction in progress		32.0		22.4	
		461.1	17.2	419.7	17.4
Financial assets					
Shares in associated companies		3.4		12.9	
Receivables from associated companies		2.8		0.1	
Other shares and securities		108.1		131.0	
Other receivables		5.3		6.7	
		119.6	4.5	150.8	6.3
Total fixed assets		1,018.7	37.9	721.4	30.0
Current assets					
Inventories					
Materials and consumables		280.8		256.1	
Work in progress		293.3		360.6	
Finished products/goods		36.7		33.0	
Advance payments		17.3		18.6	
		628.1	23.4	668.3	27.8
Long-term receivables	10				
Trade receivables		0.8		5.3	
Receivables from associated companies				5.7	
Loan receivables		9.2		16.1	
Deferred tax assets	11	56.3		50.1	
Other receivables		0.3		0.4	
Prepaid expenses and accrued income	13	0.1		0.2	
		66.7	2.5	77.9	3.2
Short-term receivables	12				
Trade receivables		606.0		578.4	
Receivables from associated companies		3.2		4.1	
Loan receivables		28.9		47.8	
Deferred tax assets	11	10.9		1.6	
Other receivables		59.3		32.9	
Prepaid expenses and accrued income	13	77.3		88.0	
		785.6	29.3	752.8	31.3
Financial assets					
Shares and securities		9.4		19.8	
Other securities		4.8			
		14.2	0.5	19.8	0.8
Cash and bank balances		171.6	6.4	164.7	6.8
Total current assets		1,666.3	62.1	1,683.5	70.0
Assets		2,685.0	100.0	2,405.0	100.0

Shareholder's equity and liabilities MEUR	Note	31 Dec. 2002	%	31 Dec. 2001	%
Shareholders' equity	14,15				
Share capital		208.1		208.1	
Share premium reserve		117.1		117.0	
Other reserves		51.1		60.5	
Retained earnings		426.9		352.3	
Profit for the financial year		121.9		305.7	
		925.2	34.5	1,043.6	43.4
Convertible subordinated debentures		27.9	1.0	28.1	1.2
Total shareholders' equity		953.1	35.5	1,071.6	44.6
Minority interests		6.5	0.2	6.4	0.3
Provisions	16				
Provisions for pensions		40.7		37.4	
Other provisions		113.3		145.5	
		154.0	5.7	183.0	7.6
Liabilities	17				
Long-term					
Bonds				0.0	
Loans from credit institutions		171.4		99.9	
Pension loans		103.4		39.8	
Deferred tax liability	18	39.9		37.5	
Other long-term liabilities		7.9		6.3	
		322.7	12.0	183.6	7.6
Current	20				
Bonds				4.2	
Loans from credit institutions		312.6		8.9	
Pension loans		26.3		6.5	
Advances received		158.9		186.7	
Trade payables		321.6		351.6	
Liabilities to associated companies		1.3		1.6	
Other current liabilities		40.0		30.5	
Accrued expenses and deferred income	19	388.0		370.3	
		1,248.8	46.5	960.4	39.9
Total liabilities		1,571.5	58.5	1,144.0	47.6
Shareholders' equity and liabilities		2,685.0	100.0	2,405.0	100.0

Income statement

Parent Company, Income statement MEUR	Note	2002	2001
Net sales	1	7.0	6.4
Other operating income	3	138.9	714.6
Personnel expenses	4	–15.1	–12.9
Depreciation and write downs	5	–5.1	–4.3
Other operating expenses		–40.8	–29.3
Operating profit		85.1	674.4
Financial income and expenses	6		
Income from financial assets		12.9	20.2
Interest income and other financial income		37.1	55.8
Exchange gains and losses		17.5	0.7
Interest expenses and other financial expenses		–23.9	–40.6
		43.6	36.0
Profit before extraordinary items		128.7	710.5
Extraordinary items	7		
Exceptional expenses			–6.0
Group contribution		–20.0	–34.0
Profit before appropriations and taxes		108.7	670.5
Appropriations			
Change in depreciation difference		0.1	0.9
Profit before taxes		108.8	671.4
Income taxes	8	–30.9	–196.1
Profit for the financial period		77.9	475.4

Financial analysis

Parent Company, Financial analysis MEUR	2002	2001
Cash flow from operating activities		
Operating profit	85.1	674.5
Adjustments for:		
Depreciation and writedowns	5.1	4.3
Selling profit and loss of fixed assets	–120.8	–701.0
Other adjustments		0.3
Cash flow before changes in working capital	–30.6	–21.9
Changes in working capital:		
Current assets, non-interest-bearing, increase(-)/decrease(+)	0.0	–30.4
Current liabilities, non-interest-bearing, increase(+)/decrease(-)	1.3	–26.7
	1.3	–57.0
Cash flow from operating activities before financial items and taxes	–29.3	–78.9
Interest and other financial expenses	–23.9	–40.6
Received dividends from operating activities	0.1	0.3
Interest and other financial income from operating activities	49.2	96.1
Income taxes	2.9	5.3
Cash flow before extraordinary items	–1.0	–17.9
Cash flow from extraordinary items		–6.0
Cash flow from operating activities (A)	–1.0	–23.9
Cash flow from investing activities:		
Investments in shares	–2.2	–0.7
Investments in other tangible and intangible assets	–15.6	–18.3
Proceeds from sale of shares	144.5	766.1
Proceeds from sale of tangible and intangible assets	7.3	5.1
Loan receivables, increase(-), decrease(+)	–1.6	12.5
Interest income from investments		0.6
Dividends received from investments	6.0	19.4
Taxes on sale of shares	–33.9	–201.4
Cash flow from investing activities (B)	104.5	583.3
Cash flow after investing activities	103.5	559.4
Cash flow from financing activities:		
Issuance of share capital		0.7
Loans receivable, increase (-)/decrease(+)	–227.9	–460.6
Current loans increase (+)/decrease(-)	190.4	59.8
New long-term loans	453.4	0.0
Amortization and other changes to long-term loans	–268.0	0.0
Group contributions	–34.0	10.6
Paid dividends	–237.8	–143.6
Other changes	2.7	–2.1
Cash flow from financing activities (C)	–121.1	–535.2
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	–17.6	24.2
Liquid funds at beginning of period	115.2	91.0
Liquid funds at end of period	97.6	115.2

Balance sheet

Parent Company, ASSETS MEUR	Note	31.12. 2002	31.12.2001
Fixed assets	9		
Intangible assets			
Intangible rights		1.2	0.7
Other long-term expenditure		14.5	7.8
		15.6	8.5
Tangible assets			
Land and water		17.2	19.5
Buildings and structures		7.1	7.8
Machinery and equipment		3.9	3.8
Other tangible assets		0.5	0.5
Advance payments and construction in progress		12.5	9.0
		41.2	40.5
Financial assets			
Shares in Group companies		529.5	531.2
Long-term loans receivable from Group companies		4.9	5.6
Shares in associated companies		0.0	1.9
Receivables from associated companies		2.8	0.1
Other shares and securities		55.8	71.6
Other receivables		3.2	3.7
		596.3	614.0
Total fixed assets		653.1	663.0
Current assets			
Long-term receivables	10		
Trade receivables		0.8	5.3
Loan receivables		3.3	3.6
Prepaid expenses and accrued income		0.0	
		4.1	8.9
Short-term receivables	12		
Trade receivables		8.2	2.4
Receivables from Group companies		870.5	650.2
Receivables from associated companies		0.0	
Loan receivables		0.5	0.6
Other receivables		5.2	5.0
Prepaid expenses and accrued income	13	12.2	10.6
		896.6	668.9
Financial assets			
Shares and securities			16.0
Other securities		4.8	
		4.8	16.0
Cash and bank balances		92.9	99.2
Total current assets		998.3	792.9
Assets		1,651.4	1,456.0

Parent Company, Shareholder's Equity and Liabilities MEUR	Note	31.12.2002	31.12.2001
Shareholders' equity	14,15		
Share capital		208.1	208.1
Share premium reserve		117.1	117.0
Retained earnings		571.4	335.2
Profit for the financial year		77.9	475.4
		974.6	1,135.6
Convertible subordinated debentures		27.9	28.1
Total shareholders' equity		1,002.5	1,163.7
Accumulated appropriations			
Depreciation difference		4.4	4.6
Provisions	16	4.0	4.0
Liabilities	17		
Long-term			
Bonds			0.0
Loans from credit institutions		104.2	2.7
Pension loans		78.9	10.6
		183.1	13.3
Current	20		
Bonds			4.2
Loans from credit institutions		256.8	1.8
Pension loans		21.8	2.0
Advances received		0.0	0.0
Trade payables		1.9	2.4
Liabilities to Group companies		152.5	231.8
Liabilities to associated companies		0.0	0.2
Other current liabilities		1.7	1.5
Accrued expenses and deferred income	19	22.7	26.6
		457.4	270.4
Total liabilities		640.5	283.7
Shareholders' equity and liabilities		1,651.4	1,456.0

Accounting principles

Wärtsilä Group's financial statements have been prepared in accordance with the laws and regulations in force in Finland and in compliance with the company's Group-wide accounting principles.

No changes have been made to the accounting principles since the previous year.

The financial statements are presented in euro. The preparation of the financial statements in conformity with applicable regulations and generally accepted accounting principles requires management to make estimates and assumptions that affect the valuation and allocation of the reported figures. Actual results may differ from such estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the parent company and the accounts of its directly or indirectly owned subsidiaries (over 50% of the voting rights) and associated companies. Acquired or established subsidiaries and associated companies are consolidated from the date of acquisition or establishment until the end of the period of ownership. Certain real estate and housing companies and the Group's reinsurance company are not consolidated since they have a negligible effect on the Group's result and distributable equity.

All intra group transactions as well as distribution of profit, receivables and liabilities, and unrealized margins on intragroup transactions are eliminated in the consolidation. Minority interests are presented in the income statement as a separate item after taxes. The share of minority interests in shareholders' equity is also shown separately in the consolidated balance sheet.

Mutual shareholdings are eliminated using the purchase method. The goodwill in the subsidiaries is calculated on the basis of their acquisition cost by eliminating the Group's share of the equity of the acquired subsidiaries, including reserves less deferred tax liability. Of the difference between the cost of the acquisition and the equity of the subsidiaries at the date of acquisition, that amount by which the value of fixed assets can be considered to exceed the subsidiary's balance sheet value has been entered under fixed assets. The remainder of the difference is recorded as goodwill. Goodwill is amortized over the useful life of the asset, nevertheless over a period not exceeding twenty years. The depreciation periods are determined by the Group's strategic plans and long-term profit expectations owing to the nature of its business.

Investments in associated companies (voting rights between 20% and 50% and ownership more than 20%) are included in the consolidated accounts using the equity method. The consolidated income statement includes the Group's share of results in associated companies taking into account goodwill write-offs and dividends received. The Group's share of the post-acquisition increase of the net assets of these companies is added to the acquisition cost and to shareholders' equity. The book values of the shares of associated companies are listed in the notes to the financial statements as recorded by the shareholding subsidiaries. Investments in other companies are listed in the balance sheet at acquisition cost and the book values of these shares are written down, if required, to correspond with their market value.

Foreign subsidiaries

In the consolidated accounts all items in the income statements of foreign subsidiaries are translated into euros at the average exchange rates for the financial year. The balance sheet items of subsidiaries are translated into euros at the rates of exchange ruling on the balance sheet date. Translation differences arising from the application of the purchase method are treated as an adjustment affecting consolidated shareholders' equity; the translation difference applying to shareholders' equity at the time of acquisition is allocated to distributable and non-distributable equity. Those differences which arise from the translation of income statement items and balance sheet items at different rates are recorded under consolidated distributable equity.

The Group applies the equity hedging method to hedge most of the shareholders' equities of subsidiaries outside the euro area using currency loans or forward contracts, to reduce the effects of exchange rate fluctuations on the Group's shareholders' equity. Exchange gains and losses resulting from the hedging transactions are netted against the translation differences recorded in the shareholders' equity of the consolidated balance sheet.

Transactions denominated in foreign currencies

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Open hedging instruments of foreign currency based items, including interest components, are valued at the balance sheet date. Exchange gains and losses related to business operations are treated as adjustments to net sales and operating expenses. Exchange gains and losses related to financing operations are entered at their net values under financial income and expenses.

Revenue recognition

Net sales is calculated by deducting items including indirect sales taxes and discounts from gross sales revenues. Revenue is recognized at the date of delivery except for large, long-term projects, which are recognized using the percentage-of-completion method.

Research and development

Research and development costs are expensed in the financial period in which they occurred, with the exception of investments in buildings, machinery and equipment, which are capitalized and depreciated. In the Netherlands, where R&D is supported by conditional state development credits, R&D costs are charged to earnings after deducting the amount of these credits. Repayments are entered as expenses in the income statement. The principal of such development credits on the balance sheet date is shown under contingent liabilities in the notes to the financial statements.

Pension arrangements

Statutory and supplementary pension obligations in Finland are covered through payments to pension insurance institutions and recorded as determined by periodical actuarial calculations prepared by those institutions. In the Group companies outside Finland, the pension obligations are arranged and pension liabilities recorded in accordance with local legislation and practice. Changes in uncovered pension obligations are entered in the income statement and the pension liability is included in provisions in the balance sheet.

Warranty costs

The estimated warranty costs of goods delivered to customers are included under current liabilities in the balance sheet. Actual warranty costs, including changes in warranty liability, are charged against earnings for the period.

Valuation of inventories

Inventories are valued at their direct acquisition cost, which includes direct manufacturing costs and an appropriate proportion of indirect production overheads and acquisition costs. The upper value used in the valuation of inventories is their net realizable value.

Fixed assets and depreciation

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land and buildings also include revaluations; these are stated in the notes to the financial statements.

The following indicative useful lives are used:

Other long-term expenditure	3-10 years
Buildings	10-40 years
Machinery and equipment	5-20 years

Leasing

Operating leasing payments are treated as rentals. Significant financial leasing items are capitalized as fixed assets.

Extraordinary income and expenses

Extraordinary income and expenses include items which fall outside the ordinary activities of the company.

Appropriations

Appropriations comprise voluntary provisions and the depreciation difference. In the consolidated accounts accumulated appropriations are divided into tax liability and shareholders' equity. The change in appropriations, net of tax liability, is included in the result for the year. The amount of appropriations entered under shareholders' equity is not regarded as distributable funds.

Provisions

Provisions in the balance sheet comprise those items which the Company is committed to covering either through agreements or otherwise, but which are not yet realized. These include uncovered pension liabilities, forecast losses on projects in progress and restructuring expenses. Changes to provisions are included in the income statement.

Income taxes

Income taxes in the income statement include taxes of subsidiaries for the financial period, calculated in accordance with local regulations, as well as adjustments to prior year taxes and deferred taxes. Taxes allocated to extraordinary items are presented in the notes to the financial statements.

Deferred tax liabilities or assets are calculated as the temporary differences between the tax and financial periods using the tax rate for subsequent years confirmed on the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and the probable realizable amount of deferred tax assets.

Convertible capital notes

Wärtsilä Corporation has made two convertible capital notes issues, which are treated as equivalent to shareholders' equity. The terms are described in the notes to the financial statements.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

Notes to the financial statements

MEUR	Group 2002	%	2001	%	Power Divisions 2002	%	2001	%
1. Net sales by country								
Italy	198.5	7.9	182.7	7.7	187.1	8.1	176.1	8.1
France	145.0	5.8	127.6	5.4	128.1	5.5	113.6	5.2
Germany	140.1	5.6	94.6	4.0	112.2	4.8	68.9	3.2
Norway	124.0	4.9	112.0	4.7	118.6	5.1	106.0	4.9
Great Britain	88.0	3.5	86.0	3.6	62.7	2.7	58.8	2.7
Sweden	86.9	3.5	69.6	2.9	18.6	0.8	10.1	0.5
The Netherlands	85.7	3.4	72.7	3.1	84.8	3.7	68.9	3.2
Finland	84.5	3.4	83.1	3.5	56.8	2.4	54.2	2.5
Spain	50.7	2.0	72.0	3.1	49.4	2.1	70.5	3.2
Denmark	47.7	1.9	34.2	1.4	46.2	2.0	32.3	1.5
Greece	31.2	1.2	31.0	1.3	31.2	1.3	31.0	1.4
Other European countries	147.0	5.8	103.1	4.4	137.5	5.9	96.3	4.4
Europe	1,229.3	48.8	1,068.5	45.3	1,033.2	44.5	886.7	40.8
Middle East	138.3	5.5	147.9	6.3	138.1	6.0	147.8	6.8
India	108.7	4.3	136.6	5.8	108.7	4.7	136.6	6.3
China and Hong Kong	92.1	3.7	61.7	2.6	92.1	4.0	61.7	2.8
Japan	75.3	3.0	80.3	3.4	75.3	3.2	80.3	3.7
Korea	68.3	2.7	76.1	3.2	68.3	2.9	76.1	3.5
Singapore	45.1	1.8	34.6	1.5	44.8	1.9	34.4	1.6
Indonesia	24.9	1.0	26.8	1.1	24.9	1.1	26.8	1.2
Taiwan	12.8	0.5	29.9	1.3	12.8	0.5	29.9	1,4
Other Asian countries	86.8	3.4	84.4	3.6	86.8	3.7	84.3	3.9
Asia	652.4	25.9	678.3	28.8	651.9	28.1	678.1	31.2
South America	225.6	9.0	78.6	3.3	225.6	9.7	78.6	3.6
USA and Canada	177.1	7.0	306.8	13.0	175.0	7.5	302.8	13.9
Central America	146.5	5.8	94.2	4.0	146.5	6.3	94.2	4.3
The Americas	549.2	21.8	479.6	20.3	547.1	23.6	475.6	21.9
African countries	66.1	2.6	109.8	4.7	66.1	2.8	109.8	5.1
Other countries	22.1	0.9	22.4	1.0	21.7	0.9	22.0	1.0
Total	2,519.0	100.0	2,358.7	100.0	2,319.9	100.0	2,172.1	100.0

	Group 2002	2001	Parent Company 2002	2001
2. Projects for which percentage of completion methods is applied				
Recognized accumulated income				
Uncompleted projects	446.8	952.6		
Unrecognized part of income	92.1	53.5		
Recognized accumulated contribution	23.2	68.9		
3. Other operating income				
Rental income	2.5	1.1	2.8	0.1
Profit on sales of fixed assets	116.9	555.7	123.4	701.0
Other operating income	18.9	15.1	12.7	13.5
Total	138.3	571.9	138.9	714.6
4. Personnel expenses				
Wages and salaries	434.2	382.6	11.7	11.9
Pension costs	24.8	21.2	2.6	0.3
Other compulsory personnel costs	89.9	86.2	0.7	0.7
Total	548.9	490.0	15.1	12.9

Pension costs contain only those of Finnish companies.
Pension costs of foreign companies are included in other compulsory personnel costs.

	Group		Parent Company	
	2002	2001	2002	2001
Salaries and emoluments to senior management				
Presidents and members of the Board of Directors	16.6	13.4	0.7	0.8

The CEO and the presidents of some Group Companies have the right to retire at the age of 60 years.
The Company's Board of Directors decides the remunerations of the President and his immediate subordinates.

Personnel on average				
Power Divisions	11,024	9,562	177	158
Imatra Steel	1,393	1,284		
Total	12,417	10,846	177	158

5. Depreciation and write downs

Depreciation according to plan				
Intangible assets	2.5	3.2	0.0	0.0
Goodwill on consolidation	22.8	11.3		
Other long-term expenditure	5.4	5.5	3.3	2.7
Buildings and structures	13.7	13.4	0.6	0.6
Machinery and equipment	48.9	49.1	1.1	0.9
Other tangible assets	9.8	5.7	0.0	0.0
Construction in progress		0.3		
Total depreciation according to plan	103.1	88.5	5.1	4.3
Total book depreciation			5.0	3.3
Depreciation difference			0.1	0.9
Adjustment of depreciation difference on sold fixed assets			0.0	
Write down of fixed assets	2.3	37.5		
Depreciation difference on January 1			4.6	5.5
Change in the depreciation difference			–0.1	–0.9
Depreciation difference on December 31			4.5	4.6

6. Financial income and expenses

Dividend income				
from Group companies			4.3	0.3
from other companies	7.1	19.9	8.6	19.4
Total	7.1	19.9	12.9	19.7
Interest income from financial assets				
from Group companies				0.6
from other companies		0.0		
Income from financial assets total	7.1	20.0	12.9	20.2
Other interest income				
from Group companies			29.3	41.2
from other companies	13.7	22.0	7.5	13.1
Total	13.7	22.0	36.8	54.3
Other financial income				
from Group companies			0.1	0.2
from other companies	1.3	4.1	0.2	1.3
Total	1.3	4.1	0.3	1.5
Exchange gains and losses	–7.1	–9.2	17.5	0.7
Write downs of financial assets	–0.1	–6.1		
Interest expenses				
to Group companies			–3.7	–18.6
to other companies	–28.5	–31.6	–18.6	–19.5
Total	–28.5	-31.6	–22.3	–38.2
Other financial expenses				
to other companies	–5.0	–14.2	–1.6	–2.4
Total	–5.0	–14.2	–1.6	–2.4
Financial income and expenses, total	–18.5	–15.2	43.6	36.0

	Group 2002	Group 2001	Parent Company 2002	Parent Company 2001
7. Extraordinary income and expenses				
One-time pension and lifetime annuity payments		–6.0		–6.0
Group contributions			–20.0	–34.0
Total		–6.0	–20.0	–40.0
8. Income taxes				
Income taxes on operations				
for the financial year	–54.1	–219.5	–30.5	–192.1
for prior years	–4.7	–4.7	–0.5	–3.9
Change in deferred tax	11.3	29.5		
Total	–47.6	–194.7	–30.9	–196.1
Income taxes on extraordinary items		1.7	5.8	11.6

9. Fixed assets

	Acquisition cost Jan. 1	Increases	Decreases	Accumulated depreciation, Jan. 1	Accumulated depreciation of decreases	Depreciation for the period	Write downs and their reversals	Residual value Dec. 31
Group								
Intangible assets								
Intangible rights	17.0	9.6		–7.0		–2.5		17.2
Goodwill on consolidation	165.1	293.4		–45.5		–22.8		390.2
Other long-term expenditure	74.4	12.9		–51.3		–5.4		30.6
Group 2002	256.5	315.9		–103.7		–30.7		438.0
Group 2001	242.3	15.9		–87.3		–19.9		151.0
Tangible assets								
Land and water	42.8	1.5	–5.5	–0.1				38.7
Buildings and structures	269.3	20.5	–50.5	–102.2	13.6	–13.7		136.9
Machinery and equipment	659.5	55.4	–78.8	–407.6	45.2	–48.9	–2.3	222.5
Construction in progress	22.7	14.6	–4.8	–0.5				31.9
Other tangible assets	46.7	23.7	–2.5	–28.1	0.8	–9.8		31.0
Advances paid	0.3		–0.3					
Group 2002	1,041.3	115.6	–142.4	–538.4	59.6	–72.4	–2.3	461.1
Group 2001	985.3	75.8	–17.6	–527.0	15.7	–68.6	–37.5	419.7
Financial assets								
Shares in associated companies	18.2	3.3	–18.1					3.4
Receivables from associated companies	0.1	2.7						2.8
Shares in other companies	133.2	0.9	–25.2	–0.9				108.1
Receivables from other companies	6.7		–1.4					5.3
Group 2002	158.3	6.9	–44.7	–0.9				119.7
Group 2001	375.0	2.7	–223.6	–1.0			–0.6	150.8

Fixed assets

	Acquisition cost Jan. 1	Increases	Decreases	Accumulated depreciation, Jan. 1	Accumulated depreciation of decreases	Depreciation for the period	Write downs and their reversals	Residual value Dec. 31
Parent company								
Intangible assets								
Intangible rights	1.0	0.5		–0.3				1.2
Other long-term expenditure	23.3	9.9		–15.5		–3.3		14.5
Parent Company 2002	24.3	10.4		–15.7		–3.3		15.6
Parent Company 2001	18.9	5.3		–13.0		–2.8		8.5
Tangible assets								
Land and water	18.2	0.3	–1.3					17.2
Buildings and structures	27.2			–19.4		–0.6		7.1
Machinery and equipment	10.9	1.3	–0.1	–7.2	0.1	–1.1		3.9
Construction in progress	9.0	3.5						12.5
Other tangible assets	1.4			–0.9				0.5
Parent Company 2002	66.6	5.1	–1.4	–27.5	0.1	–1.8		41.2
Parent Company 2001	56.7	13.9	–3.6	–26.0	1.1	–1.6		40.5
Financial assets								
Shares in Group companies	531.2	2.0	–3.7					529.5
Receivables from Group companies	5.6		–0.7					4.9
Shares in associated companies	1.9		–1.9					0.0
Receivables from associated companies	0.1	2.7						2.8
Shares in other companies	71.6	0.2	–16.0					55.8
Receivables from other companies	3.7		–0.5					3.2
Parent Company 2002	613.6	4.9	–22.3					596.3
Parent Company 2001	696.4	1.1	–83.5					614.0

	Group 2002	Group 2001	Parent Company 2002	Parent Company 2001
10. Specification of long-term receivable				
Receivables from Group companies				
Long-term investments			4.9	5.6
Total			4.9	5.6
Receivables from associated companies				
Long-term investments	2.8	0.1	2.8	0.1
Loan receivables		5.7		
Total	2.8	5.9	2.8	0.1
11. Specification of deferred tax assets				
Tax loss carry forward	45.2	36.0		
Temporary differences	7.4	4.4		
Group eliminations	14.6	11.4		
Total	67.2	51.8		
12. Specification of short-term receivables				
Receivables from Group companies				
Trade receivables			8.4	6.5
Loan receivables			854.1	633.6
Prepaid expenses and accrued income			8.1	10.1
Total			870.5	650.2

	Group 2002	Group 2001	Parent Company 2002	Parent Company 2001
Receivables from associated companies				
Trade receivables	3.2	3.5	0.0	
Loan receivables		0.6		
Prepaid expenses and accrued income	0.0	0.0		
Total	3.2	4.1	0.0	

13. Main items in prepaid expenses and accrued income

	Group 2002	Group 2001	Parent Company 2002	Parent Company 2001
Interest	2.9	1.8	2.5	1.6
Other financial items	7.1	2.8	5.4	1.3
Income and other taxes	23.8	26.5	2.6	5.6
Other items	43.6	57.0	1.7	2.1
Total	77.4	88.2	12.2	10.6

14. Shareholder´s equity

	Group 2002	Group 2001	Parent Company 2002	Parent Company 2001
Share capital				
Share capital on January 1				
Series A	54.0	48.8	54.0	48.8
Series B	154.1	140.9	154.1	140.9
Total	208.1	189.7	208.1	189.7
Subscription based on warrants		0.2		0.2
Conversion of debentures	0.1	18.2	0.1	18.2
Total	0.1	18.4	0.1	18.4
Share capital on December 31				
Series A	54.0	54.0	54.0	54.0
Series B	154.1	154.1	154.1	154.1
Total	208.1	208.1	208.1	208.1
Share premium reserve				
Share premium reserve on January 1	117.0	45.6	117.0	45.6
Issue premium	0.2	71.4	0.2	71.4
Share premium reserve on December 31	117.1	117.0	117.1	117.0
Other reserves				
Other reserves on January 1	60.5	54.8		
Transfers from retained earnings	1.1	0.3		
Translation difference and other changes	–10.5	5.4		
Other reserves on December 31	51.1	60.5		
Retained earnings				
Retained earnings on January 1	658.0	500.7	810.6	480.5
Transfer to other reserves	–1.1	–0.3		
Ordinary dividend distribution	–29.7	–35.2	–29.7	–35.2
Extra dividend distribution in cash	–208.1	–108.4	–208.1	–108.4
Reversal of revaluation	–1.3	–1.6	–1.3	–1.6
Change in deferred tax liability on revaluation	0.4	0.5		
Net change in translation differences	8.8	–3.3		
Profit for the year	121.9	305.7	77.9	475.4
Retained earnings on December 31	548.8	658.0	649.3	810.6
Distributable equity				
Retained earnings on December 31	548.8	658.0	649.3	810.6
Voluntary provisions and depreciation difference	–37.0	–40.2		
Deferred tax liability	11.2	12.1		
Undistributable share issue gains	–6.1	–8.3		
Distributable equity	516.9	621.6	649.3	810.6

	Group		Parent Company	
	2002	2001	2002	2001
15. Convertible subordinated debentures	27.9	28.1	27.9	28.1

Main terms:
* Two issues of convertible subordinated debentures, each carrying principal of EUR 58.9 million at the date of issue.
* Should Wärtsilä Corporation be put into liquidation or become bankrupt, the principal of the loan shall rank junior to Wärtsilä Corporation's other obligations (and equal to the Company's other equivalent loans raised to strengthen shareholders' equity).
* The loans are dated on March 24, 1994. The notes are not collaterilized and are perpetual.
* Wärtsilä Corporation is entitled to pay back the principal with interest at any time from May 2, 2004 assuming that the Company and the Group still have distributable equity after making the payment. Furthermore, Wärtsilä Corporation is entitled to pay back the principal on the same terms if the share price exceeds the conversion price by at least 40 percent, in which case note holders are entitled to convert their notes to Company shares before payback.
* The notes shall pay fixed interest of 7.8 percent until May 2, 2004 and thereafter a rate of interest to be fixed annually notes to Company shares before payback which shall exceed the 12-month Euribor rate by five percentage points.
* Interest may be paid annually only to the extent that the payments do not exceed the distributable equity shown in the most recent approved financial accounts. Any interest left unpaid shall remain the liability of the Company. Interest is paid before dividend.
* Each bond of nominal value EUR 1681.88 convertible into Series A shares may be exchanged for 62 Series A shares and 62 Series B shares. The aggregate conversion price of one Series A share and one Series B share is EUR 27.12.
* Each bond of nominal value EUR 1681.88 convertible into Series B shares may be exchanged for 124 Series B shares. The aggregate conversion price of two Series B shares is EUR 27.12.
* The conversion right commenced on June 1, 1994 and the annual period of conversion shall extend from January 2 to November 30 inclusive. The conversion right will end 14 days prior to the maturity of the notes.
* By December 31, 2002 altogether 1,426 Series A shares and 13,826 Series B shares had been converted. This represents a loan capital of EUR 206,871.15 and by this amount the principal has decreased.

16. Provisions				
Provisions for pension	40.7	37.4		
Other provisions				
Foreseeable losses	26.3	25.3		
Litigation	11.2	14.3		
Other	75.8	105.9	4.0	4.0
Other provisions total	113.3	145.5	4.0	4.0
Provisions total	154.0	183.0	4.0	4.0
Change in provisions	–29.0	73.6		–3.4

17. Liabilities				
Long-term				
Non-interest-bearing	41.5	38.8		
Interest-bearing	281.2	144.7	183.1	13.3
Total	322.7	183.5	183.1	13.3
Current				
Non-interest-bearing	905.7	936.9	50.3	69.3
Interest-bearing	343.1	23.5	407.1	201.1
Total	1,248.8	960.4	457.4	270.4
Bond with warrants 1996	0.0	0.0	0.0	0.0

Main terms:
* Principal EUR 30,274
* Each EUR 168.19 bond carries a warrant to subscribe for 1,200 Series B shares, nominal value EUR 3.50, for a subscription price of EUR 7.99 per share.
* The loan is dated on May 2, 1996. The conversion period commenced on September 1, 1996 and will end on May 2, 2003, on which date the principal will also be repaid.
* Annual interest on bonds is equivalent to the Bank of Finland's base rate minus 1 percentage point.
* 34 executives have subscribed for the loan.

Long-term debt with maturity profile

	Maturing Bonds	Bank loans	Pension loans	Other loans	Total	Credit facilities
2003		51.5	26.3	1.1	78.9	73.9
2004		110.5	25.7	1.9	138.1	98.1
2005		5.2	25.1	0.9	31.1	84.8
2006		5.2	25.1	0.2	30.4	38.0
2007		6.7	16.9	0.1	23.8	60.5
2008-		43.8	10.7	3.3	57.8	
Total 31 Dec. 2002		222.9	129.8	7.4	360.1	355.3
Total 31 Dec. 2001	4.2	107.4	46.4	5.6	163.5	415.8

Division of long-term loans by currency	31 Dec. 2002	31 Dec. 2001
EUR	73%	94%
USD	13%	
SEK	1%	4%
Other currencies	13%	2%

	Group 2002	Group 2001	Parent Company 2002	Parent Company 2001
18. Specification of deferred tax liabilities				
Untaxed reserves	16.8	21.0		
Revaluation	4.9	5.6		
Temporary differences	11.6	1.4		
Group eliminations	6.6	9.5		
Total	39.9	37.5		
19. Main items in accured expenses and deferred income				
Project cost	83.6	94.7		
Warranty costs	84.2	84.6		
Income and other taxes	32.9	25.1	0.0	2.4
Personnel expenses	74.7	70.6	3.6	4.8
Interest and other financial items	42.7	22.7	12.8	16.0
Other	69.7	72.6	6.2	3.4
Total	388.0	370.3	22.7	26.6
20. Specification of current liabilities				
Liabilities to Group companies				
Trade payables			4.3	1.3
Other current liabilities			148.2	230.4
Total			152.5	231.8
Liabilities to associated companies				
Trade payables	1.2	1.3		
Other current liabilities		0.2		0.2
Accrued expenses and deferred income	0.1	0.1		
Total	1.3	1.6		0.2

21. Collateral, contingent liabilities and other commitments

	2002 Balance sheet debt	2002 Collateral	2001 Balance sheet debt	2001 Collateral
Group				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	6.4	18.0	9.9	19.8
Pension loans	25.0	41.3	28.9	35.8
Off-balance-sheet commitments		5.4		14.3
Total	31.4	64.7	38.8	69.9

Collateral, contingent liabilities and other commitments		2002		2001
	Balance sheet debt	Collateral	Balance sheet debt	Collateral
Group				
Chattel mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	1.8	1.9	2.9	5.9
Off-balance-sheet items	9.3	40.0		35.3
Total	11.1	41.9	2.9	41.2
Parent company				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	4.4	9.6	4.6	6.6
Off-balance-sheet commitments		5.4		14.3
Total	4.4	15.0	4.6	20.9

		Group		Parent Company
	2002	2001	2002	2001
Guarantees and contingent liabilities				
on behalf of Group companies	243.9	299.1	392.0	437.1
on behalf of associated companies	1.1	1.1	1.1	1.1
on behalf of others		2.1		
Nominal amounts of rents according to leasing contracts				
Payable within one year	10.9	8.7	0.6	0.5
Payable after one year	34.8	33.2	0.7	0.5
Total	45.7	41.9	1.2	1.0

22. Inner circle loans and other commitments

There are no loans from senior management and the members of the Board of Directors.
No pledges or other commitments were given on behalf of senior management or shareholders.

23. Nominal values of derivative instruments on December 31, 2002

	Total amount	of which closed contracts
Interest rate swaps	200.0	160.0
Foreign exchange forward contracts	934.6	54.2
Currency options; purchased	38.8	
Total	1,173.4	214.2

If all the above instruments would have been reversed (sold) at the market prices at the year end, the net effect would have been EUR 20.6 million.

24. Exchange rates

		Closing rates		Average rates
	31 Dec.2002	31 Dec. 2001	2002	2001
USD	1.04870	0.88130	0.94491	0.89565
GBP	0.65050	0.60850	0.62876	0.62187
SEK	9.15280	9.30120	9.15906	9.25570
NOK	7.27560	7.95150	7.51009	8.04891
DKK	7.42880	7.43650	7.43052	7.45216
CHF	1.45240	1.48290	1.46717	1.51039
JPY	124.39000	115.33000	118.06583	108.73417
SGD	1.81990	1.63060	1.69032	1.60339
INR	50.28500	42.51400	46.17092	42.14517

Currency distribution 2002	Invoiced sales	Operating costs
EUR	51.6 %	72.3 %
USD	24.3 %	10.4 %
SEK	2.9 %	2.9 %
NOK	3.5 %	3.4 %
Other EU	4.6 %	4.9 %
Other	13.1 %	6.1 %
	100.0 %	100.0 %

The distribution of the Group´s sales and operating expenses by currency provides a view of the Group´s long-term currency sensitivity.

25. Shares and securities

Company, name and country		Share %	Votes %	Currency	Book value ' 000 Wärtsilä Corp. direct ownership	Indirectly owned through a subsidiary
Subsidiaries						
Wärtsilä Technology Oy Ab	Finland	100.0	100.0	EUR	449,064	
Wärtsilä Finland Oy	Finland	100.0	100.0	EUR		100,912
Wärtsilä Operations Ltd Oy	Finland	100.0	100.0	EUR		84
Wärtsilä Nederland B.V.	The Netherlands	100.0	100.0	EUR		141,400
Wärtsilä Italia S.p.A.	Italy	100.0	100.0	EUR		83,447
Wärtsilä Switzerland Ltd.	Switzerland	100.0	100.0	EUR		6,950
Wärtsilä France S.A.S.	France	100.0	100.0	EUR		20,000
Wärtsilä Lips Defence S.A.	France	100.0	100.0	EUR		3,097
Wärtsilä Propulsion Netherlands B.V.	The Netherlands	100.0	100.0	EUR		151,989
Wärtsilä Propulsion Singapore Pte Ltd	Singapore	100.0	100.0	EUR		28
Wärtsilä Danmark A/S	Denmark	100.0	100.0	EUR		9,631
Ciserv Denmark A/S	Denmark	100.0	100.0	DKK		41,102
Wärtsilä Sweden AB	Sweden	100.0	100.0	DKK		150,407
Ciserv AB	Sweden	100.0	100.0	SEK		41,318
Wärtsilä Norway A/S	Norway	100.0	100.0	EUR		10,079
Wärtsilä Propulsion Norway A/S	Norway	100.0	100.0	NOK		129,490
Wärtsilä Ibérica S.A.	Spain	100.0	100.0	EUR		3,875
Wärtsilä Portugal Lda.	Portugal	100.0	100.0	EUR		222
Wärtsilä Deutschland GmbH	Germany	100.0	100.0	EUR		507
Wärtsilä Propulsion Deutschland GmbH	Germany	100.0	100.0	EUR		783
Deep Sea Seals Ltd	Great Britain	100.0	100.0	EUR		81,745
Wärtsilä UK Ltd.	Great Britain	100.0	100.0	EUR		5,393
Wärtsilä Ireland Ltd.	Irland	100.0	100.0	GBP		10
Wärtsilä Caspian Ltd	Azerbaijan	100.0	100.0	GBP		10
Wärtsilä Polska Sp.z.o.o.	Poland	100.0	100.0	EUR		547
Wärtsilä Greece S.A.	Greece	100.0	100.0	EUR		369
Wärtsilä-Enpa A.S.	Turkey	51.0	51.0	EUR		69
Wärtsilä Arab Mediterranean Power Ltd	Egypt	100.0	100.0	EUR		37
Wärtsilä North America, Inc.	USA	100.0	100.0	USD		83,397
Wärtsilä Development & Financial Services Inc.	USA	100.0	100.0	EUR		10,197
Wärtsilä Lips Inc.	USA	100.0	100.0	USD		42,336
Wärtsilä Canada Inc.	Canada	100.0	100.0	USD		2,439
Ciserv CGL Canada Inc.	Canada	100.0	100.0	CAD		512
Wärtsilä de Mexico SA	Mexico	100.0	100.0	USD		6,708
Wärtsilä Caribbean, Inc.	Puerto Rico	100.0	100.0	USD		0
Wartsila Operations, Inc.	USA	100.0	100.0	USD		10
Wärtsilä Latin America Ltd.	Bermuda	100.0	100.0	EUR		5,800
Wärtsilä Chile Ltda.	Chile	100.0	100.0	USD		2,778
Wärtsilä Ecuador S.A.	Ecuador	100.0	100.0	USD		1,991
Wärtsilä do Brasil Ltda.	Brazil	100.0	100.0	USD		3,306
Wärtsilä Colombia S.A.	Colombia	99.7	99.7	USD		34
Wärtsilä Peru S.A.	Peru	100.0	100.0	USD		1,307
Wärtsilä Argentina S.A.	Argentina	100.0	100.0	USD		896
Wärtsilä Venezuela, C.A.	Venezuela	100.0	100.0	USD		771
Wärtsilä Bolivia S.A.	Bolivia	100.0	100.0	USD		0
Wärtsilä Development & Financial Services Oy	Finland	100.0	100.0	EUR		18,800
Wärtsilä Singapore Pte Ltd.	Singapore	100.0	100.0	EUR		3,151
Ciserv Singapore Pte Ltd.	Singapore	100.0	100.0	SGD		5,000
Wärtsilä China Ltd.	Hong Kong	100.0	100.0	EUR		9,010
Wärtsilä Korea Ltd.	South Korea	100.0	100.0	EUR		894
Wärtsilä Taiwan Ltd.	Taiwan	96.7	96.7	EUR		401
Wärtsilä Philippines Inc.	Philippines	100.0	100.0	EUR		645
PT. Wärtsilä Indonesia	Indonesia	100.0	100.0	EUR		10,289
Wärtsilä Australia Pty Ltd.	Australia	100.0	100.0	EUR		1,689
Wärtsilä India Ltd.	India	89.6	89.6	EUR		26,342
Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	100.0	100.0	EUR		3,713
Wärtsilä Bangladesh Ltd.	Bangladesh	100.0	100.0	EUR		96
Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	60.0	60.0	EUR		716

Shares and securities Company, name and country		Share %	Votes %	currency	Book value ' 000 Wärtsilä Corp. direct ownership	Indirectly owned through a subsidiary
Wärtsilä Gulf FZE	United Arab Emirates	100.0	100.0	EUR		213
Wärtsilä South Africa (Pty) Ltd.	South Africa	100.0	100.0	EUR		316
Wärtsilä Eastern Africa Ltd	Kenya	100.0	100.0	EUR		15
Wärtsilä Japan Company Ltd	Japan	88.9	88.9	EUR		2,025
Japan Marine Technologies Ltd	Japan	93.9	93.9	EUR		56,563
Chuwac Engineering Pte Ltd	Singapore	100.0	100.0	JPY		39,113
Wärtsilä CIS Ltd.	Russia	100.0	100.0	EUR		858
Imatra Steel Oy Ab	Finland	100.0	100.0	EUR	46,612	
Imatra Kilsta AB	Sweden	100.0	100.0	EUR		5,885
Scottish Stampings Ltd	Great Britain	100.0	100.0	SEK		46,080
Imatra Stahl GmbH	Germany	100.0	100.0	EUR		45
Imatra Steel Ltd.	Great Britain	100.0	100.0	EUR		65
Imatra Steel S.A.R.L.	France	100.0	100.0	EUR		34
Metra Finance Oy Ab	Finland	100.0	100.0	EUR	32,125	
Vulcan Insurance Ltd. [1]	Great Britain	100.0	100.0	EUR	336	
Wärtsilä Oyj Abp, other subsidiaries (4)					706	
Wärtsilä Oyj Abp, housing and property companies (9)					704	
Total					529,546	
Associated companies						
Cervuctum Oy [2]	Finland	37.5	37.5	EUR		
Wartsila Navim Diesel S.r.l.	Italy	40.0	40.0	EUR		13
Navalips SA	Spain	50.0	50.0	EUR		1,305
Repropel Sociedad de reparacao de helices LDA	Portugal	50.0	50.0	EUR		93
Lips Italiana SpA	Italy	50.0	50.0	EUR		1,026
Wärtsilä Oyj Abp (other)					2	
Total					2	
Other companies						
Assa Abloy AB (publ.)	Sweden	7.6	22.9	EUR	44,534	
Polar-Yhtymä Oyj	Finland	8.0		EUR	2,893	
Rautaruukki Oyj	Finland	0.0		EUR	59	
Sampo Oyj	Finland	0.3		EUR	3,798	
Sato Yhtymä Oyj	Finland			EUR		135
Power Partners Oy	Finland	19.5	19.5	EUR		435
Wärtsilä Oyj Abp, other (30)					4,490	
Total					55,774	
Wärtsilä Corporation; total shares and securities					585,322	

A complete list of shares and securities in accordance with the Finnish Companies Act is included in the official financial statements. The profit/loss and shareholders' equity is not reported for those housing companies that were not consolidated in the Group.

[1] Vulcan Insurance Ltd. not consolidated as a subsidiary; profit/loss EUR -0.1 million and shareholders' equity EUR 0.5 million for the financial year 2001.

[2] Cervuctum Oy not consolidated as an associated company; profit/loss EUR -0.3 million and shareholders' equity EUR 4.0 million for the financial year 2001.

Proposal of the Board

On 31 December 2002 the consolidated retained earnings of the Group amounted to EUR 548,809,000 and included distributable funds totalling EUR 516,923,000. The Parent Company's net profit for the financial year amounted to EUR 77,885,866.05 and the retained earnings to EUR 571,441,691.53. The distributable funds of the Parent Company on 31 December 2002 amounted to EUR 649,327,557.58. The number of shares entitled to a dividend is 59,469,112. The Board of Directors proposes, that a dividend of EUR 0.25 per share be paid i.e. totally EUR 14,867,278.00 and in addition an extra dividend having the value of EUR 1.50 per share, totalling EUR 89,203,668.00. After this the undistributed retained earnings in the Parent Company will be EUR 545,256,611.58.

Helsinki, 5 February 2003

Robert G. Ehrnrooth
Georg Ehrnrooth
Jaakko Iloniemi
Bertel Langenskiöld

Vesa Vainio
Göran J. Ehrnrooth
Antti Lagerroos
Paavo Pitkänen

Ole Johansson
President and CEO

Auditors´ Report

to the shareholders of Wärtsilä Corporation

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the President and CEO of Wärtsilä Corporation for the year ended 31 December 2002. The annual accounts prepared by the Board of Directors and the President and CEO include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and the parent company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Board of Directors and the President and CEO have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

Helsinki, 6 February 2003
KPMG WIDERI OY AB
Mauri Palvi
Authorized Public Accountant

Shares and Shareholders

Wärtsilä Corporation's shares are listed on the main list of the Helsinki Stock Exchange. The shares are also traded on the SEAQ International (Stock Exchange Automatic Quotation) system on the London Stock Exchange.

Wärtsilä Corporation's share capital is minimum EUR 87.5 million and maximum EUR 350 million. Within these limits the share capital may be raised or lowered without amending the Articles of Association. The company's paid-up and registered share capital is EUR 208,141,892. Series A shares carry 10 votes and Series B shares 1 vote at general shareholders' meetings. The nominal value of the shares is EUR 3.50. All shares carry equal dividend rights. There are altogether 59,469,112 shares in all: 15,415,855 A shares and 44,053,257 B shares.

Convertible subordinated debentures and bonds with warrants for management

In March 1994 the Board floated two convertible capital notes issues, each of the same amount and together totalling EUR 117.7 million. One is convertible into Series A and Series B shares, and the other into Series B shares.

Conversions based on these notes during 2002 amounted to 1,426 Series A shares and 13,826 Series B shares, i.e. 15,252 shares in all. The calculated conversion rate until the Annual General Meeting on 12 March 2002 was EUR 17.16 per share, after which it was reduced to EUR 13.56 per share following the payment of an extra dividend approved by the AGM. The total number of shares converted from these notes by 31 December 2002 was 1,489,187 A shares and 3,742,799 B shares, representing EUR 89.9 million of the loan principal.

The company has also issued bonds with warrants for a nominal value of EUR 30,274 to company executives based on the authorization of the 1996 AGM. The bonds were subscribed by 34 members of corporate and division management at that time. The right to subscribe for shares began on 1 September 1996 and ends on 2 May 2003, when the principal will be repaid.

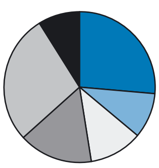
No Wärtsilä shares were subscribed for during 2002 based on the 1996 warrants. The subscription price at the start of the year would have been EUR 11.49 per share until the AGM on 12 March 2002, after which it was reduced to EUR 7.99 per share following the payment of an extra dividend approved by the AGM. Altogether 67,200 Series B shares (0.1% of the total number of shares and 0.03% of the voting rights) have so far been subscribed for based on these warrants.

Following the decision of the AGM on 20 March 2001, a total of 1,500,000 warrants were issued to key persons in the Wärtsilä Group, entitling them to subscribe for the same number of Wärtsilä B shares. The share subscription period begins on 1 April 2003 and ends on 31 March 2007. The share subscription price is EUR 28.22 and any extra dividends distributed before the subscription of shares will be deducted from this price. The share warrant scheme covers 79 individuals.

The AGM on 12 March 2002 approved a new warrant scheme for key persons in the Wärtsilä Group. The number of warrants is 800,000 and they may be exercised to subscribe for the same number of Wärtsilä B shares. The share subscription with warrants will begin provided that the company reaches a minimum operating margin of 4% in 2003, in which case the subscription period will begin on 1 April 2004 and end on 31 March 2008. The share subscription price is EUR 17.42 and any extra dividends distributed before the subscription of shares will be deducted from this price. The share warrant scheme covers 38 individuals. There were no other share-based personnel incentive schemes in force during 2002.

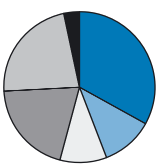
Conversions and subscriptions during 2002 raised Wärtsilä's share capital by altogether EUR 53,382. The number of A shares rose by 1,426 and the number of B shares by 13,826, making a total of 15,252 shares and 28,086 votes.

Ownership structure according to shares 31 Dec. 2002



- Private corporations 26.4%
- Banks and insurance companies 9.6%
- Public sector entities 11.4%
- Non-profit organizations 15.8%
- Households 28.0%
- Outside Finland or nominee registered 8.8%

Ownership structure according to votes 31 Dec. 2002



- Private corporations 33.0%
- Banks and insurance companies 11.2%
- Public sector entities 10.0%
- Non-profit organizations 20.0%
- Households 22.5%
- Outside Finland or nominee registered 3.3%

Management holdings

The members of the Board of Directors, the CEO, the CEO's deputy and the corporations under their control own altogether 1,916,425 Wärtsilä Corporation shares, which represent 3.22% of the stock and 4.91% of the voting rights.

Under the 2002 warrants issue the CEO and his deputy hold 190,000 warrants, entitling them to subscribe for at most 190,000 shares, or 0.3% of the current total number of shares and 0.1% of the voting rights.

Under the 2001 warrants issue the CEO and his deputy hold 126,000 warrants, entitling them to subscribe for at most 126,000 shares, or 0.2% of the current total number of shares and 0.06% of the voting rights.

Under the 1996 bond with warrants the CEO's deputy holds 8 warrants which, if exercised, would raise his shareholding by at most 9,600 shares, or 0.02% of the current total number of shares and 0.005% of the voting rights.

Board's proposals to the annual general meeting

The Board proposes to the Annual General Meeting on 12 March 2003 that a dividend of EUR 0.25 per share and an extra dividend of EUR 1.50 per share be distributed on the financial year ended 31 December 2002.

With respect to the extra dividend, the Board proposes that the conversion ratio of the 1994 convertible subordinated debentures and the subscription price of the Wärtsilä shares subscribable under the warrants attached to the 1996 bond with warrants be changed corresponding to the amount of the extra dividend.

Furthermore, the Board proposes that the AGM would authorize the Board during a period of one year from the resolution of the AGM to repurchase the Company's own shares of series A and series B in proportion to the number of shares in each class of shares. Such repurchase shall be carried out in public trading at the prevailing market price by using distributable funds, and it may be completed in other than the proportion of the shareholdings of the shareholders. The aggregate nominal value and voting rights of the shares repurchased shall not exceed 5% of the share capital and of all voting rights. The authorization may be used for repurchasing shares for the purpose of being used as consideration in future mergers and acquisitions or industrial reorganisations or for the development of the capital structure of the Company or as part of its management incentive system. Shares may be acquired for other consideration than cash. The corresponding previous authorization given by the AGM on 12 March 2002 would be revoked.

The Board proposes that the AGM would authorize the Board during a period of one year from the resolution of the AGM to dispose of any or all the shares repurchased by virtue of the above mentioned authorization in one or several lots, and by deviating from the pre-emptive rights of the shareholders. The aggregate nominal value and voting rights of shares to be disposed of shall not exceed 5% of the share capital and of all voting rights. Shares may be disposed of as consideration in mergers and acquisitions or industrial reorganisations or in order to develop the capital structure of the Company or as part of its management incentive system. Shares must be disposed of at the market price prevailing in public trading. Shares may be disposed of for other consideration than cash. The corresponding previous authorization given by the AGM on 12 March 2002 would be revoked.

Dilution effect of the convertible subordinated debentures and option schemes

	Number of shares	%	Share capital EUR	Votes %	Price, EUR	Conversion/subscription terms
Conv. subord. debentures	2,054,060	3.5	7,189,210	2.3	13.56	2 Jan. - 30 Nov. annually
Bonds with warrants (1996)	148,800	0.3	520,800	0.1	7.99	until 2 May 2003[1]
Share option programme (2001)	1,500,000	2.5	5,250,000	0.8	28.22	1 April 2003-31 March 2007[1]
Share option programme (2002)	800,000	1.3	2,800,000	0.4	17.42	1 April 2004-31 March 2008[1,2]
Total	4,502,860	7.6	15,760,010	3.6		

Number of Wärtsilä shares 63,971,972 and number of votes 205,257,473, if all conversion and subscription rights are exercised.

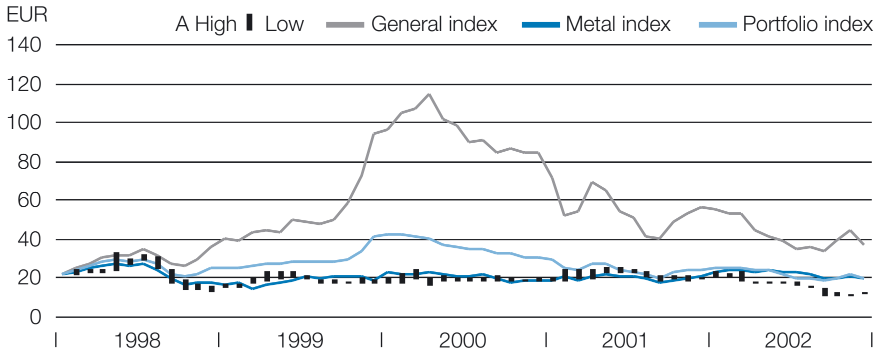
1) Subscription period annually between 2.1. - 30.11.

2) Provided that the Company's operating margin in 2003 is at least 4%.

Change in share capital

	Series A Shares	%	Votes	%	Series B Shares	%	Votes	%	Total Shares	Votes
Shares/votes 31 Dec. 01	15,414,429	25.9	154,144,290	77.8	44,039,431	74.1	44,039,431	22.2	59,453,860	198,183,721
Debentures converted	1,426		14,260		13,826		13,826		15,252	28,086
Bonds with warrants subscribed	-		-		-		-		-	-
Total 31 Dec. 02	15,415,855	25.9	154,158,550	77.8	44,053,257	74.1	44,053,257	22.2	59,469,112	198,211,807

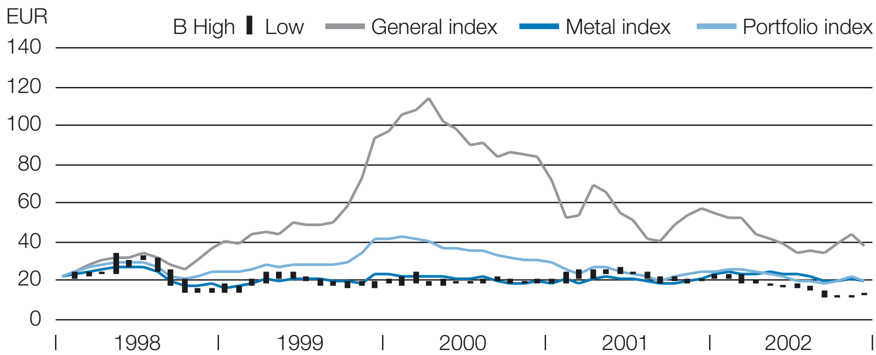
Series A quotations



The adjacent diagrams describe share price trends from 2 January 1998 to 30 December 2002.

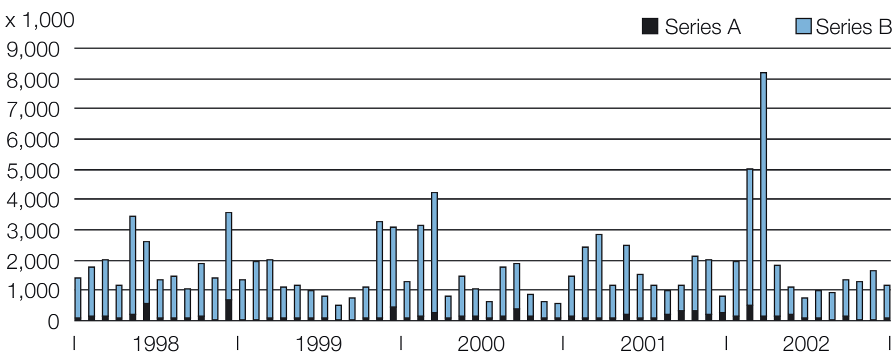
The HEX general index, portfolio index and metal index have been indexed to the Wärtsilä share price.

Series B quotations

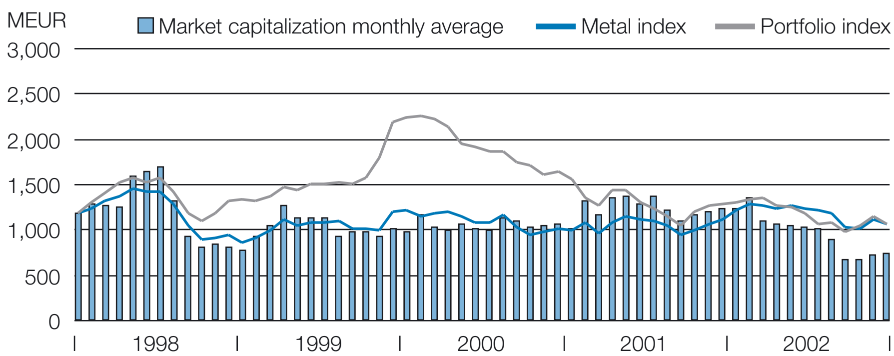


Wärtsilä´s company and share codes	
Helsinki Exchange	WRT
Series A	WRTAV
Series B	WRTBV
Reuters´RIC	
Series A	WRTAV.HE
Series B	WRTBV.HE
Bloomberg	
Series A	WRTAV FH
Series B	WRTBV FH

Traded shares/month



Market capitalization



Approximately 6.6 million Wärtsilä shares, i.e.11.1% of all Wärtsilä shares, were traded on the SEAQ system in London during 2002.

Share information	Series A	Series B
Share lot	100	100
Shares/votes	10	1
Taxation 2002 EUR/share	8.54	8.40

The adjacent tables are based on the book-entry accounts at 30 December 2002.

Wärtsilä has 25,482 registered shareholders.

		No. of shares x1,000			
Major shareholders		Series A	Series B	% of votes	% of shares
1.	Fiskars Corporation	4,104	6,290	23.9	17.5
2.	If PLC Insurance Company Ltd.	1,072	870	5.8	3.3
3.	Varma-Sampo Mutual Pension Insurance Company	1,010	1,115	5.7	3.6
4.	Svenska Litteratursällskapet	965	21	4.9	1.7
5.	Agrofin Oy Ab	725	722	4.0	2.4
6.	Sampo Life Insurance Company Ltd.	595	1,096	3.6	2.8
7.	Brita Maria Renlund Foundation	228	330	1.3	0.9
8.	Sigrid Juselius Foundation	248	126	1.3	0.6
9.	Association of Finnish Metal Industries	216	272	1.2	0.8
10.	Signe och Ane Gyllenbergs Foundation	212	160	1.1	0.6
11.	The Social Insurance Institution	165	377	1.0	0.9
12.	Polaris Pension Fund	158	229	0.9	0.6
13.	Magnus Ehrnrooths Foundation	138	112	0.8	0.4
14.	Ilmarinen Mutual Pension Insurance Company	72	671	0.7	1.2
15.	Livränteanstalten Hereditas	104	310	0.7	0.7
	15 largest, total	10,012	12,701	56.9	38.0

Division of shares				Series A				Series B
Number of shares	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1-100	5,951	54.7	257,514	1.7	6951	29.2	440,735	1.0
101-1.000	4,219	38.8	1,385,093	9.0	13,515	56.8	5,168,882	11.7
1.001-10.000	626	5.8	1,528,632	9.9	3,032	12.7	8,104,609	18.4
10.001-100.000	60	0.6	1,848,328	12.0	275	1.2	7,344,366	16.7
100.001-1.000.000	15	0.1	4,210,272	27.3	36	0.2	9,968,394	22.6
1.000.001-	3	0.0	6,186,016	40.1	4	0.0	13,026,271	29.6
Yhteensä	10,874	100	15,415,855	100	23,813	100	44,053,257	100

Ownership structure		Series A		Series B		Total
%	Shareholders	Shares	Shareholders	Shares	Votes	Shares
Private corporations	2.4	9.3	4.2	17.1	33.0	26.4
Banks and insurance companies	0.1	3.1	0.3	6.5	11.2	9.6
Public sector entities	0.2	2.4	0.3	9.0	10.0	11.4
Non-profit organizations	3.5	5.7	3.0	10.1	20.0	15.8
Households	92.7	5.2	91.2	22.8	22.5	28.0
Outside Finland and nominee-registered	1.2	0.2	1.0	8.6	3.3	8.8
Total	100.0	25.9	100.0	74.1	100.0	100.0

The present company name Wärtsilä Corporation, domicile Helsinki, was entered in the Trade Register on 22 September 2000.

The share prices before 1999 have been converted into EUR using of exchange rate 1 EUR=5.94573 FIM.

Formulas for calculating the financial ratios are given on page 5.

The Wärtsilä share on the Helsinki Exchange		2002	2001	2000	1999	1998
Trading volume	MEUR					
Series A		24.5	39.8	27.4	17.3	44.8
Series B		457.7	392.6	332.9	310.0	474.1
Total		482.2	432.4	360.3	327.3	518.9
Number traded	1,000					
Series A		1,260	1,902	1,359	924	2,018
Series B		24,537	17,912	16,636	16.825	20,748
Total		25,797	19,814	17,995	17.749	22,766
Stock turnover	%					
Series A		8.2	13.2	9.8	6.6	14.5
Series B		55.7	43.1	41.3	41.8	51.7
Total		43.4	35.4	33.2	32.7	42.1
Average share price	EUR					
Series A		19.43	20.94	20.14	18.69	22.19
Series B		18.65	21.92	20.01	18.43	22.86
Trading low/high	EUR					
Series A	low	10.81	18.03	16.30	14.60	12.61
	high	23.50	25.50	25.00	23.75	32.96
Series B	low	10.45	18.25	17.00	13.71	12.78
	high	23.50	26.00	24.30	24.00	33.30
Share price at year end	EUR					
Series A		12.78	20.60	19.50	18.20	15.09
Series B		12.02	20.80	19.70	18.50	14.80
Year-end market capitalization	MEUR	727	1,234	1,065	999	806

Key figures for Wärtsilä shares		2002	2001	2000	1999	1998
Earnings per share (EPS)	EUR	2.05	5.53	4.20	2.43	0.45
Book value of equity/share	EUR	15.56	17.55	14.59	13.09	11.54
Dividend/share	EUR	1.75 [1]	4.00	2.65	2.85	1.55
Dividend/earnings	%	85.4 [1]	72.3	63.1	117.3	344.4
Dividend yield	%					
Series A		13.69 [1]	19.42	13.61	15.66	10.27
Series B		14.56 [1]	19.23	13.55	15.41	10.47
Price per earnings						
Series A		6.2	3.7	4.6	7.5	36.4
Series B		5.9	3.8	4.7	7.6	35.7
Price to book value (P/BV)						
Series A		0.8	1.2	1.3	1.4	1.3
Series B		0.8	1.2	1.3	1.4	1.3
Adjusted number of shares	1,000					
end of financial year		59,469	59,454	54,202	54,200	54,199
on average		59,454	56,097	54,200	54,199	54,050

[1] *Proposal of the Board of Directors.*

Board of Directors and Board of Management

Board of Directors

Mr Robert G. Ehrnrooth, LicSc (Econ.), Chairman, born 1939. Chairman of the Board of Wärtsilä Corporation since 1990. Member of the Board of Fiskars Corporation. Owns 40,321 shares in Wärtsilä.

Mr Georg Ehrnrooth, MSc (Eng.), born 1940. Member of the Board of Wärtsilä Corporation since 1999. Chairman of the Board of Assa Abloy AB (publ), Deputy Chairman of the Board of Rautaruukki Corporation, member of the Boards of Nokia Corporation, Sampo plc and Sandvik AB (publ.). Owns 75,659 shares in Wärtsilä.

Mr Göran J. Ehrnrooth, MSc (Econ.), born 1934. Chairman of the Board of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 1992. Member of the Board of Assa Abloy AB (publ). Owns 105,409 shares in Wärtsilä.

Mr Jaakko Iloniemi, MSc (Pol. Sc.), born 1932. Member of the Board of Wärtsilä Corporation since 1994. Owns 579 shares in Wärtsilä.

Mr Antti Lagerroos, LLLic, born 1945. President & CEO and Member of the Board of Finnlines plc. Member of the Board of Wärtsilä Corporation since 2002. Member of the Boards of Fortum Oyj and Nordic Aluminium Oyj. Owns 4,000 shares in Wärtsilä.

Mr Bertel Langenskiöld, MSc (Eng.), born 1950. President & CEO of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 2002. Member of the Supervisory Board of Rautaruukki Corporation. Owns no shares in Wärtsilä.

Mr Paavo Pitkänen, MA, born 1942. Managing Director of Varma-Sampo Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 1995. Member of the Boards of Stora Enso Oyj and Sampo plc. Owns 579 shares in Wärtsilä.

Mr Vesa Vainio, LLM, Deputy Chairman, born 1942. Member of the Board of Wärtsilä Corporation since 1993. Chairman of the Board of UPM-Kymmene Corporation and member of the Board of Nokia Corporation. Owns 834 shares in Wärtsilä.

Board Members' term of office changed in 2002

The Extraordinary General Meeting of Wärtsilä shareholders on 25 September 2002 decided that each Board Member's term of office shall last for one year. This means that the terms of all members expire in 2003.

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Board of Management

Mr Ole Johansson, BSc (Econ.), born 1951. President and CEO. Worked for the company 1975-79 and rejoined in 1981. Owns 9,500 shares in Wärtsilä. Warrant 2001 allows subscription of 84,000 Wärtsilä B shares and warrant 2002 allows subscription of 150,000 Wärtsilä B shares.

Mr Sven Bertlin, BSc (Econ.), born 1944. Executive Vice President. Group Vice President, Engine division. Joined the company in 1970. Owns 2,872 shares in Wärtsilä. Warrant 1996 with right to subscribe for 9,600 Wärtsilä B shares. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares and warrant 2002 allows subscription of 40,000 Wärtsilä B shares.

Mr Pekka Ahlqvist, MSc (Eng.), born 1946. Group Vice President, Power Plants division. Joined the company in 1999. Owns 1,500 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares and warrant 2002 allows subscription of 40,000 Wärtsilä B shares.

Mr Tage Blomberg, BSc (Eng.), born 1949. Group Vice President, Service division. Joined the company in 1975. Owns 1,350 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares and warrant 2002 allows subscription of 40,000 Wärtsilä B shares.

Mr Kari Hietanen, LLM, born 1963. Group Vice President, Legal Affairs and HR. Company Secretary and Secretary to the Board of Management. Joined the company in 1989. Owns 48 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares and warrant 2002 allows subscription of 40,000 Wärtsilä B shares.

Mr Matti Kleimola, LicSc (Tech.), born 1946. Prof., CTO, Group Vice President, Technology and Environment. Worked for the company 1974-84 and rejoined in 2000. Owns 1,000 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares and warrant 2002 allows subscription of 40,000 Wärtsilä B shares.

Mr Raimo Lind, MSc (Econ.), born 1953. Group Vice President, CFO. Employed by the company 1976-89 and rejoined in 1998. Owns 1,560 shares in Wärtsilä. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares and warrant 2002 allows subscription of 40,000 Wärtsilä B shares.

Mr Mikael Mäkinen, MSc (Eng.), Naval Architect, born 1956. Group Vice President, Marine division. Joined the company in 1982. Warrant 2001 allows subscription of 42,000 Wärtsilä B shares and warrant 2002 allows subscription of 40,000 Wärtsilä B shares.

Financial Risk Management

Wärtsilä's central treasury function has two main objectives. It arranges adequate funding of the Group's underlying operations on competitive terms using debt and equity financing instruments. Treasury also hedges the Group and various companies against unfavourable changes in the financial markets and minimizes the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and shareholders' equity.

The risk policy is set by the Board of Directors. Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

Foreign exchange risk

Some 52% of sales and 72% of operating costs took place in euros. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: the USD and GBP.

Foreign exchange risks are managed by each Group company separately in several local currencies. Several commercial currency surpluses and deficits like fixed purchase and sales contracts are hedged. The hedges reach out to such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its balance sheet position, which includes receivables and payables denominated in foreign currencies.

The instruments, and their nominal values, used to hedge the Group's foreign exchange exposure are listed in the notes to the financial statements, page 29. Since Wärtsilä has subsidiaries outside the euro zone, the Group's non-restricted shareholders' equity is sensitive to exchange rate fluctuations. At the end of 2002 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 240.7 million, of which EUR 173.9 million was hedged.

Interest rate risk

The John Crane-Lips acquisition and payment of dividends in 2002 increased interest-bearing loan capital, which at the end of the year totalled EUR 652.2 (196.3) million including the EUR 27.9 (28.1) million convertible subordinated debentures. The average interest rate was 3.8% (4.8) and the average refixing time 10 (21) months. The maturity profile, division by currency and other information on debt is provided on page 28. At the end of 2002 the effect of a one percentage point parallel change in the yield curve on the value of the net debt portfolio, excluding the subordinated convertible bond of EUR 27.9 million, would have been EUR 5.3 million.

The interest rate risk primarily represents changes in market rates of the loan portfolio and also to a minor extent changes in market interest rates related to cash and bank balances. Wärtsilä hedges its interest rate exposure by using derivative instruments such as interest rate swaps, forwards and options. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis. Wärtsilä spreads its interest rate risk exposure by taking both fixed and floating rate loans. The share of floating rate loans as a proportion of the total debt can vary between 30-70%. At the end of 2002 the ratio was 68% after adjustment for interest rate swaps.

Liquidity and refinancing risk

Wärtsilä Group's liquidity is good. Wärtsilä had cash reserves totalling EUR 171.6 million at the year end as well as EUR 282.7 million in non-utilized committed credit facilities and substantial Commercial Paper programmes. Wärtsilä minimizes its refinancing risk using a balanced and sufficiently long maturity schedule. Information on the Group's loans is given on page 28.

Credit risk

The management of the credit risks associated with ordinary commercial activities is the responsibility of the Divisions and the Group companies.

Major trade and project finance credit risks are minimized by sharing these risks between banks, insurance companies, export credit organizations and suppliers. The company's long-term suppliers' credits total EUR 68.9 million. No losses were recorded on suppliers' credits.

Credit risks related to the placement of liquid funds and to trading in financial instruments are minimized by setting explicit lines for the counterparties and by making agreements only with the most reputable domestic and international banks and financial institutions.

Equity price risk

Wärtsilä has certain investments in publicly quoted shares (see page 31). The market value of these shares at the end of 2002 was EUR 324 million. The company also has equity investments in power plant companies totalling EUR 27.5 million.

Hazard risk

Wärtsilä aims to avoid damages and losses by quality management and effective loss prevention work. Risks that cannot be controlled internally are transferred through insurance. The objective is that property damage, business interruptions and general third-party and product liability risks are covered by proper insurance policies.

Corporate Governance

Wärtsilä Corporation adheres to the application guideline on the administration of public listed companies issued by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. Application of this guideline was recommended by the Helsinki Exchanges on 2 October 1997.

Board of Directors

The company's administration and the appropriate organization of its operations is the responsibility of the Board of Directors, which comprises 5-8 members. The term of office of Board members lasts for one year from their election to the close of the subsequent Annual General Meeting.

The Board elects a chairman and deputy chairman from among its members who serve until the close of the subsequent AGM. Information on the members of the Board of Directors and their business interests appears on page 38.

The principles applied by the Board in its regular work are set out in the Rules of Procedure approved by the Board. These also define the main tasks and operating principles to be adopted by the committees which the Board appoints. The committees do not have the authority to make decisions; their purpose is to prepare matters for consideration by the Board at its meetings.

The Board of Directors convened nine times during 2002. The Chairman was Mr Robert G. Ehrnrooth and the Deputy Chairman was Mr Vesa Vainio. The Board appointed two committees: an Audit Committee to supervise the annual accounts and financial control, and a Personnel Committee to oversee remuneration and other matters related to the company's human resources.

Audit Committee:
Robert G. Ehrnrooth, Georg Ehrnrooth, Göran J. Ehrnrooth and Paavo Pitkänen.

Personnel Committee:
Robert G. Ehrnrooth, Georg Ehrnrooth, Jaakko Iloniemi and Vesa Vainio.

The President and CEO

The company's Board of Directors appoints a President for the Group and, if required, one or more executive vice presidents. The company's president is also its chief executive officer. The company currently has one executive vice president who has also been appointed deputy to the President and CEO.

The Board of Management

The company's Board of Management comprises the President and CEO, the executive vice president, the heads of the divisions, the chief financial officer and the group vice president, legal affairs and personnel. Board of Management members are appointed by the company's Board of Directors, which also approves their remuneration and other terms of employment.

The Board of Management is chaired by the President and CEO. It considers strategic issues, investments, product policy, the Group structure and corporate steering systems, and it oversees the company's operations.

The division heads on the Board of Management are each responsible for the profitability and sales volumes of their respective global businesses, employing the services of the Group's worldwide subsidiaries. Information on the members of the Board of Management appears on page 38.

The Corporate Management

The company's Corporate Management includes, in addition to the members of the Board of Management, the directors in charge of corporate functions and the president of Imatra Steel.

Corporate Management meetings are chaired by the President and CEO and their composition varies depending on the issues under consideration. Corporate Management meetings are convened to prepare proposals to the company's Board of Directors, to deal with issues concerning communications, personnel development, quality, information management and other development issues, to handle relations with stakeholders, and to consider issues specific to Imatra Steel.

Information on the members of the Corporate Management is given in the business review section of this annual report on page 11.

Division Boards

Each division head is supported by a Division Board. Information on the members of the Division Boards is shown on the division pages in the business review section of this annual report. Imatra Steel has its own Board of Directors.

Managing Directors of the Subsidiaries

The managing directors of the Group's subsidiaries are responsible for ensuring that the local service, sales and manufacturing resources are correctly dimensioned to meet the needs of the divisions; that the subsidiary's personnel development needs are met, that the subsidiary's operations fulfil the requirements stipulated in the Group's quality system; and that the human resources are developed, and that these operations comply with the respective country's legal requirements and with good business practice.

Insiders

Wärtsilä applies the Guidelines for Insiders approved by the Helsinki Exchanges on 28 October 1999. Wärtsilä's permanent insiders comprise the statutory insiders as well as the members of the Board of Management and certain other members of the Corporate Management. Information on the interests and holdings of the company's permanent insiders is available from the SIRE system of the Finnish Central Securities Depository Ltd, Eteläesplanadi 20, FIN-00130 Helsinki, Finland, tel.+358-800-180 500. Information is also available on Wärtsilä's Internet site.

Management Incentive Schemes

As authorized by the AGM on 25 March 1996, the company issued bonds with warrants to top management with a total nominal value of EUR 30,274. The warrants entitle holders to subscribe for Wärtsilä's Series B shares. The share subscription period began on 1 September 1996 and ends on 2 May 2003, when the principal will be repaid. The subscription price is EUR 7.99. The bonds were subscribed for by 34 executives in corporate and divisional management.

As authorized by the AGM on 20 March 2001, 1,500,000 warrants were issued to the key personnel of the Wärtsilä Group entitling them to subscribe for the same number of Series B shares. The share subscription period begins on 1 April 2003 and ends on 31 March 2007. The subscription price is EUR 28,22. The amount of any extra dividends that may be distributed will be deducted from this price. The warrant programme covers 79 people.

The AGM on 12 March 2002 decided to issue altogether 800,000 warrants to key personnel of Wärtsilä Group allowing subscription of the same number of Wärtsilä Corporation B shares. The warrants were subscribed for by 38 key employees. Share subscription under the warrants will begin provided that the company reaches the minimum profitability target of 4% set by the Board of Directors for the year 2003. Should this condition be met, the share subscription period will begin on 1 April 2004 and end on 31 March 2008. The subscription price is EUR 17.42. The amount of any extra dividends that may be distributed will be deducted from this price.

The company also operates a bonus system for senior managers in the parent company, the divisions and the subsidiaries. The bonus is based on the company's earnings per share or division result and cash flow and agreed personal targets. Approximately 1,500 directors or managers are covered by this bonus scheme.

Financial Analysts

To our knowledge at least the following brokers and financial analysts have followed Wärtsilä's development during the last 12 months on their own initiative. They have analyzed Wärtsilä Corporation and drawn up reports and comments and they are able to evaluate the company as an investment target. Wärtsilä takes no responsibility for the opinions expressed therein.

27 analysts and bankers attended the Capital Markets Day in Winterthur, Switzerland.

Alfred Berg/ABN Amro	Ms Tia Lehto	+358 9 228 321	tia.lehto@alfredberg.fi
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UBS Warburg	Mr Anders Fagerlund	+46 8 453 7330	anders.fagerlund@ubsw.com

Investor relations at Wärtsilä

Wärtsilä holds conferences for investors, analysts, and the media on publication of its interim and annual results.

The company's top management regularly meets investors in Europe and the USA, and analysts and investors are also invited to visit the company. Wärtsilä also arranges Capital Markets Days which are attended by analysts and financiers. In Finland the company meets investors at the investor fairs and at local evening meetings arranged by the Finnish Foundation for Share Promotion. The material presented at the conferences is also published on Wärtsilä's Internet website.

Wärtsilä observes a four-week "silent period" preceding the publication of its results, during which the company's representatives do not meet investors or analysts or comment on the company's financial position.

Wärtsilä's Investor Relations Manager is responsible for Wärtsilä's relations with its investors and analysts.

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ANNUAL REPORT 2002
This Annual Report is also available in Finnish and Swedish and may be downloaded at Wärtsilä's Internet site, www.wartsila.com.

INTERIM REPORTS 2003
Wärtsilä Corporation will publish Interim Reports on its financial performance during 2003 as follows:

29 April 2003 January-March
31 July 2003 January-June
31 October 2003 January-September.

These Interim Reports are published in English, Finnish and Swedish on Wärtsilä's Internet site. Interim Reports will be sent by post on request. Interim Report orders: tel. +358 10 709 0000/ Corporate Communications or Internet: www.wartsila.com.

STOCK EXCHANGE RELEASES:
Wärtsilä´s Stock Exchange releases are available in English, Finnish and Swedish on Wärtsilä´s Internet site.

INFORMATION MATERIAL ORDERS
Wärtsilä's Annual and Interim Reports, brochures and releases are available at the Communications Department, tel. +358 10 709 0000 or they can be ordered via Internet www.wartsila.com.

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