Annual Report 2003

Financial Rewiev

WÄRTSILÄ

Contents

Five years in figures

Five years in figures

MEUR		2003	2002	2001	2000	1999
Net sales		2,357.5	2,519.0	2,358.7	2,706.8	2,700.0
of which outside Finland	%	97.1	96.6	96.5	96.5	95.2
Exports from Finland		1,240.6	1,363.7	1,153.7	1,337.2	1,008.1
Personnel on average		12 293	12 417	10 846	10 715	15 945
of which in Finland		3 463	3 510	3 511	3 352	3 811
Orderbook, Power Divisions		1,245.0	1,206.6	1,516.5	1,624.2	1,314.9
From the income statement						
Depreciation and writedowns		156.0	105.4	126.0	103.1	112.9
Share of profits/losses in associated companies		0.0	0.4	0.1	12.0	–10.1
Operating result		–18.4	188.9	523.9	367.1	272.7
as a percentage of net sales	%	–0.8	7.5	22.2	13.6	10.1
Net financial items		–15.9	–18.5	–15.2	–31.0	–35.7
as a percentage of net sales	%	–0.7	–0.7	–0.6	–1.1	–1.3
Profit before extraordinary items		–34.4	170.4	508.7	336.1	237.0
as a percentage of net sales	%	–1.5	6.8	21.6	12.4	8.8
Profit before taxes		-34.4	170.4	502.7	315.7	234.5
as a percentage of net sales	%	–1.5	6.8	21.3	11.7	8.7
Profit for the financial year		–39.3	121.9	305.7	213.2	130.1
as a percentage of net sales	%	–1.7	4.8	13.0	7.9	4.8
From the balance sheet						
Fixed assets		887.3	1,018.7	721.4	978.7	1,217.4
Current assets						
Inventories		555.5	628.1	668.3	539.0	667.7
Receivables		790.1	852.3	830.7	828.7	975.8
Cash and bank balances		150.0	185.8	184.6	118.9	110.3
Shareholders' equity		804.6	953.0	1,071.6	908.0	826.5
Minority interests		6.1	6.5	6.4	14.3	180.4
Provisions [3]		235.1	238.2	267.5	180.2	249.0
Interest-bearing liabilities		496.8	624.3	168.3	485.0	794.3
Non interest-bearing liabilities		840.2	863.0	891.1	877.7	921.1
Balance sheet total		2,382.9	2,685.0	2,405.0	2,465.3	2,971.2
Gross capital expenditure		65.4	423.3	97.1	207.7	263.8
as a percentage of net sales	%	2.8	16.8	4.1	7.7	9.8
Research and development expenses		70.2	87.6	81.4	81.4	86.9
as a percentage of net sales	%	3.0	3.5	3.5	3.0	3.2
Dividends paid for the financial year		44.7[1]	14.9	29.7	35.2	27.1
Supplementary dividend		-	89.2	208.1	108.4	127.4
Dividends total		44.7	104.1	237.8	143.6	154.5
Financial ratios						
Earnings per share (EPS)	EUR	–0.66	2.05	5.53	4.20	2.43
Dividend per share	EUR	0.75[1]	1.75	4.00	2.65	2.85
Payout ratio	%	n/a	85.4	72.3	63.1	117.3
Interest coverage[2]		4.4	7.8	12.6	7.4	4.8
Return on investment (ROI)	%	0.1	14.9	43.0	25.4	20.1
Return on equity (ROE)	%	–4.5	12.4	33.7	27.6	18.0
Solvency ratio 1 [2]	%	35.0	36.9	47.3	35.1	31.4
Solvency ratio 2	%	36.2	38.0	48.6	40.2	35.5
Gearing 1 [2]		0.48	0.50	0.01	0.60	0.90
Gearing 2		0.43	0.46	-0.02	0.40	0.68
Equity per share	EUR	13.03	15.56	17.55	14.59	13.09

[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 4.
[3] Warranty provisions included.

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 27.5 mill.)
[2]Gearing 2, shareholders' equity includes subordinated debentures (EUR 27.5 mill.)

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 60% of sales and 66% 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, GBP, JPY and South Korean Won.

Foreign exchange risks are managed by each Group company separately in several local currencies. Significant 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 2003 the net asset value of Wärtsilä's foreign subsidiaries outside the euro zone totalled EUR 229 million, of which EUR 198 million was hedged.

Interest rate risk

Interest-bearing loan capital decreased and at the end of the year totalled EUR 524.3 (652.2) million including the EUR 27.5 (27.9) million convertible subordinated debentures. The average interest rate was 3.4% (3.8) and the average refixing time 10 (10) months. The maturity profile, division by currency and other information on debt is provided on page 28. At the end of 2003 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 27,5 million, would have been EUR 6,3 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 2003 the ratio was 56% after adjustment for interest rate swaps.

Liquidity and refinancing risk

Wärtsilä Group's liquidity is good. Wärtsilä had cash reserves totalling EUR 150.0 million at the year end as well as EUR 311.3 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 with banks, insurance companies, export credit organizations and suppliers. The company's long-term suppliers' credits total EUR 26.3 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 2003 was EUR 277.7 million. The company also has equity investments in power plant companies totalling EUR 41.0 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.

Review by the Board of Directors 2003

Highlights of 2003

Wärtsilä re-examined its strategy in 2003 and decided to make ship power systems and service the company's growth areas. The company's goal is to be the world's leading supplier of ship power systems and offshore applications. Wärtsilä is the only global company that takes complete care of customers' ship machinery at every lifecycle stage.

Wärtsilä is also a leading provider of power plants, operation and lifetime care services in decentralized power generation.

In this area Wärtsilä decided to concentrate on fewer products, a key target being to reduce the company's sensitivity to cyclical fluctuations. Consequently Wärtsilä will no longer offer power plants based on high-speed engines and as a result manufacturing of these engines in Mulhouse, France, will be discontinued.

Action taken to improve the profitability of the Power Divisions had a positive effect on the year's result. Operational profitability showed a significant improvement and the operating margin rose to 4.4% (3.2).

Wärtsilä intends to begin manufacturing marine engines and propellers in the growing shipbuilding market in China, and to this effect signed an agreement in December on the establishment of a joint venture specializing in propeller manufacture.

To reduce overcapacity, to adjust to market volatility, and to increase flexibility Wärtsilä started negotiations at the beginning of 2004 with a view to concentrating the manufacture of large engines at its Trieste factory in Italy and discontinuing production at the Turku factory.

Consultations on personnel reductions at Mulhouse in France are in progress and consultations with personnel representatives in Turku were started in January 2004. Overlapping functions will be reduced at Wärtsilä Propulsion's facilities in the Netherlands and Norway. Power plant engineering services in Finland were outsourced in the autumn. All these measures will result in a reduction of approximately 1,100 employees worldwide.

Provisions and writedowns totalling EUR 130 million were made in the fourth quarter of 2003 to cover the restructuring measures.

Net sales and result

Wärtsilä Group's consolidated net sales decreased to EUR 2,357.5 (2,519.0) million. This resulted from the slow accrual of net sales by the Power Divisions in the early months of the year, coupled with unfavourable exchange rate changes. Net sales of the Power Divisions decreased to EUR 2,155.8 (2,319.9) million. Imatra Steel's net sales grew slightly, totalling EUR 202.7 (200.4) million.

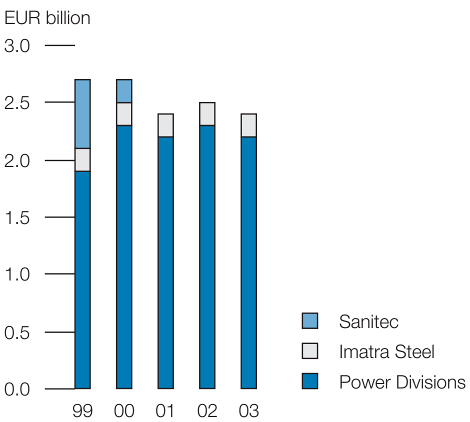
The Group's operational EBIT improved to EUR 100.0 (77.8) million, corresponding to an operating margin of 4.2%. Including the impact of the EUR 130.0 million restructuring provision, a EUR 4.4 million writedown in connection with the sale of the Billnäs Spring Works, and a EUR 15.9 million capital gain from the sale of Polar Kiinteistöt Oyj shares, operating result was negative EUR 18.4 (188.9) million. The previous year's figure included a non-recurring capital gain of EUR 111.1 million on the sale of Assa Abloy shares.

Net financial expenses amounted to EUR 15.9 (18.5) million, or 0.7% (0.7) of consolidated net sales. Financing items included dividends totalling EUR 6.8 (7.1) million, the largest being the dividend paid by Assa Abloy. The Group recorded a pretax loss of EUR -34.4 (170.4) million.

Taxes totalled EUR -4.0 (-47.6) million, including EUR -35.3 (-54.1) million in taxes for the financial year. Restructuring measures resulted in deferred tax assets totalling EUR +21.3 million.

Wärtsilä recorded a net loss of EUR -39.3 (121.9) million for the year. Earnings per share (EPS) were EUR -0.66 (2.05). Excluding the impact of non-recurring costs and the capital gain on the Polar shares, EPS was EUR 1.00 (0.72). Return on

Development of net sales



Net sales

MEUR	2003	2002	change%
Ship Power	686.1	772.9	–11.2%
Power Plants	577.5	666.0	–13.3%
Service	885.5	843.4	5.0%
Imatra Steel	202.7	200.4	1.2%
Other operations	5.8	36.3	–84.1%
Group	2,357.5	2,519.0	–6.4%

investment (ROI) was 0.1% (14.9). Excluding the restructuring provision ROI was 7.9%. Return on shareholders' equity (ROE) was -4.5% (12.4).

Financing and capital expenditure

Wärtsilä's cash flow from operating activities was a strong EUR 192.1 (55.4) million and the financial position was good. Cash reserves at the close of the period totalled EUR 150.0 (185.8) million. Net interest-bearing loan capital was EUR 353.2 (430.6) million. The solvency ratio was 35.0% (36.9) and gearing was 0.48 (0.50). Treating the convertible subordinated debentures as shareholders' equity the solvency ratio was 36.2% (38.0) and gearing was 0.43 (0.46).

Capital expenditure in 2003 amounted to EUR 65.4 (423.3) million, which comprised EUR 62.8 (74.7) million in production and information technology investments and EUR 2.6 (348.6) million in investments in shares. Depreciation totalled EUR 156.0 (105.4) million, which included a write-down of EUR 55.0 million related to restructuring measures and EUR 27.0 million in amortization of goodwill on consolidation.

Research and development in the Power Divisions totalled EUR 68.4 (85.9) million, or 3.2% (3.7) of net sales. Imatra Steel's corresponding expenses amounted to EUR 1.7 (1.7) million.

Changes in Group structure

In February Wärtsilä acquired the Dutch marine engine service company Caltax Marine Diesel B.V., which specializes in the maintenance and repair of two-stroke engines.

In June Wärtsilä signed an agreement under which it sold the assets and operations of its Billnäs Spring Works to Styria Group.

In December Wärtsilä concluded an agreement with China State Shipbuilding Corporation's subsidiary Zhenjiang CME Co. Ltd on the establishment of a joint venture to manufacture propellers in China. Wärtsilä owns 55% of the new company and the Chinese party 45%. The plan is to begin production there during 2004.

The Power Divisions

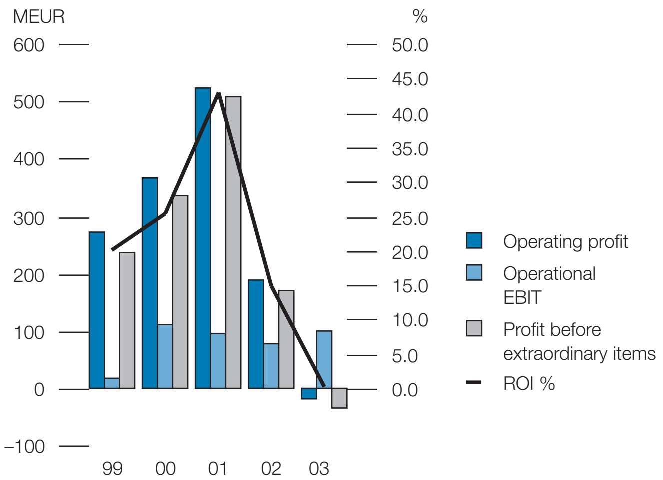
Net sales of the Power Divisions decreased 7.1% to EUR 2,155.8 (2,319.9) million. The Ship Power division's net sales fell because demand favoured licensed engines. Net sales of the Power Plants division declined early in the year but showed substantial growth at the year end. Operational EBIT of the Power Divisions, excluding the restructuring provision, was a clear improvement, EUR 95.0 (74.6) million, and the operating margin improved correspondingly to 4.4% (3.2). Operating result after the restructuring provision totalled EUR -35.0 million.

Marine engines and power plants totalling 2,935 (3,694) MW were delivered to customers. The intake of new orders during the year was 14.1% higher than in 2002 with particular growth evident in the number of orders for power plants. The total order intake was EUR 2,148.7 (1,882.8) million. The order book at the end of 2003 was slightly fuller, standing at EUR 1,245.0 (1,206.6) million, than one year earlier.

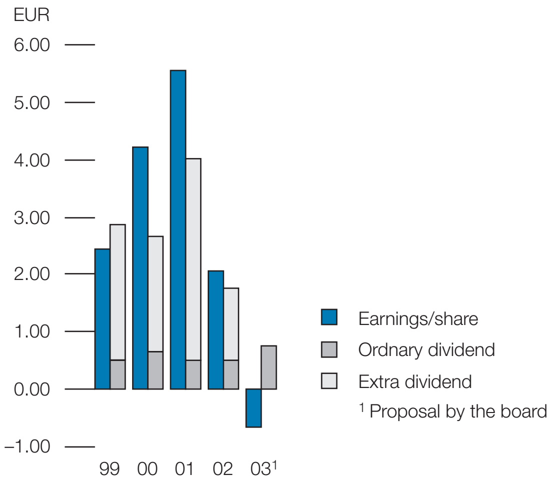
Ship Power

2003 was a record year for the shipbuilding industry as orders were placed for altogether 1,801 (1,100) vessels according to Clarkson Research Studies. Most of these were for tankers, bulk carriers and container vessels. Despite the already high level of shipyard order books, order activity in the tanker segment still remained lively at the end of the year. Demand for bulk carriers continued to be strong due to exceptionally high freight prices. The increase in container freight prices was reflected in a record number of orders. On the other hand demand was relatively sub-

Result



Earnings/share Dividend/share



dued in the markets for the engines that Wärtsilä manufactures itself. Orders for passenger and RoPax vessels were at their lowest for 15 years.

With demand for engines high on the licensed manufacturing side, Wärtsilä Ship Power's net sales decreased 11.2% to EUR 686.1 (772.9) million. The full-year order intake increased 19.8%, although the order intake in the final quarter was below the previous year's corresponding level. The year-end order book stood at EUR 606.8 (662.6) million, which was 8.4% below the previous year's figure.

Wärtsilä delivered marine engines totalling 1,665 (2,220) MW during the year. The company's licensed manufacturers supplied Sulzer low-speed engines totalling 1,913 (2,660) MW.

Megawatts delivered

	2003	2002	change %
Power Plants total	1,160	1,387	–16.4
Biopower, thermal energy	110	87	26.4
Ship Power, own deliveries	1,665	2,220	–25.0
Wärtsilä total	2,935	3,694	–20.5
By licensees	1,913	2,660	–28.1
Wärtsilä and licensees total	4,847	6,354	–23.7

Wärtsilä share of new orders for medium-speed main engines increased to 38% (34) and for low-speed main engines to 33% (25) according to statistics compiled by Diesel & Gas Turbine Worldwide between June 2002 and May 2003. Wärtsilä's share of the market for auxiliary engines was 8% (11).

Activity began to pick up at the end of the year in Wärtsilä's traditional market, which adds confidence in the belief that a turn for the better is visible in these market segments. The company has been contracted to supply main and auxiliary engines for a RoPax vessel under construction at Naviera Armas in Spain, as well as the main engines for RCL's cruise ship Ultravoyager. The offshore sector showed signs of recovery likewise and Wärtsilä received two significant orders. The Australian oil company Santos ordered engines to supply electrical power on an oil drilling rig, while the British shipowner Sealion ordered engines, gearboxes and propellers for three vessels. In November Gas de France ordered a propulsion system based on dual-fuel engines for an LNG carrier, which represented a major breakthrough for this type of engine in the growing market for LNG carriers.

The order for 12 Lips Waterjets for the US navy marked a milestone in Wärtsilä's propulsor business. The contract includes an option for a further 174 waterjets between 2006 and 2009.

Sales of two-stroke engines was extremely lively during the year and the order intake hit a record high of 6,217 MW. The Sulzer brand was particularly successful as a power source for large containerships. Orders for 14 RT-flex common rail engines were placed during the last quarter, bringing the total number of orders for this engine type to sixty. Sulzer has thus established its position as the leading brand of two-stroke common rail engines.

The volume of orders for Sulzer RT-flex engines, Wärtsilä's medium-speed common rail engines and Wärtsilä Propulsion's leak prevention seals demonstrate that shipbuilders are aware of environmental issues and that Wärtsilä's programme of investments in environmentally progressive solutions is producing results.

The hub of the shipbuilding market has shifted to Asia. Of new ship orders placed in 2003, 91% went to Korean, Japanese and Chinese yards. The fastest growing market of all is China. This year Wärtsilä begins manufacturing propellers in China with the China State Shipbuilding Corporation. Wärtsilä also has plans for manufacturing auxiliary engines in China to raise its market share in this extremely fast-growing and price competitive market. A Ship Power business centre will be set up in Shanghai to enhance customer service.

Operating profit

	MEUR		EBIT %		ROI %	
	2003	2002	2003	2002	2003	2002
Power Divisions	95.0	74.6	4.4	3.2	8.4	7.7
Imatra Steel	5.1	3.2	2.5	1.6	4.0	2.9
Operational EBIT	100.0	77.8	4.2	3.1	7.9	7.1
Non-recurring expenses, Power Divisions	–130.0					
Non-recurring expenses, Imatra Steel	–4.4					
Capital gains[1]	15.9	111.1				
Group	–18.4	188.9	–0.8	7.5	0.1	14.9

[1]In 2002 Assa Abloy, in 2003 Polar.

Power Plants

The volume of orders for power plants grew substantially compared to the previous year. The order intake totalled EUR 639.3 (427.9) million. Of Wärtsilä's main markets, Asia and Africa were particularly strong sources of new orders. The company also received large orders from certain individual countries such as the order in August 2003 for a power plant for Honduras, the largest in terms of output in Wärtsilä's history.

Wärtsilä continued to focus its power plant portfolio on fewer products and discontinued marketing of some applications. Wärtsilä is withdrawing from the market for power plants based on high-speed engines and for this reason production at the Mulhouse factory in France will be discontinued, which will improve profitability.

The largest orders for heavy fuel oil plants came from Honduras, Indonesia, Sri Lanka, Cameroon and Yemen. The most important gas power plant orders were received from Spain, Turkey, Bangladesh and India. Orders for biofuelled power plants were placed in the Nordic countries, the Baltic, Russia and Ireland.

Although the volume of orders for oil-fired power plants showed particularly strong growth during the year, focus on gas and biopower plants continued. Demand for both types is expected to grow in 2004.

The power plant organization, renewed at the end of 2002, further increased its flexibility to adjust costs to changing market conditions, and fixed costs were reduced by for example outsourcing power engineering service.

The total market for small (1-60 MW output) power plants driven by small reciprocating engine and gas turbines remained virtually unchanged between June 2002 and May 2003, according to Diesel & Gas Turbine Worldwide. Wärtsilä's market share in HFO power plants was 38% (39).

The volume of power plants delivered by Wärtsilä in 2003 was 1,160 MW (1,387). This comprised oil-fuelled plants totalling 847 MW (1,167) and gas power plants totalling 313 MW (220).

Service

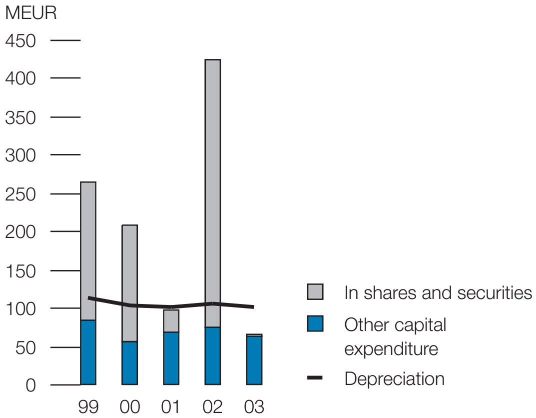
A clear trend in the service business is the concept of total service. Net sales by Wärtsilä's Service business increased 5.0% on the previous year but growth was slowed by the weakening of the US dollar. Once again the bulk of sales came from spare parts and components but service contracts of various types are accounting for an increasingly large share of the total. New agreements were signed for converting heavy fuel oil engines to operation on gas and Wärtsilä expects a breakthrough in this field during 2004.

Long-term service agreements and operation and maintenance (O&M) agreements cover almost 12,000 MW, or roughly 9% of Wärtsilä's active engine base. O&M agreements have been signed for 2,289 MW, or 132 power plants in different parts of the world, representing growth of 11% on the previous year. Growth was particularly strong in India. The most important milestones during the year were O&M agreements for marine installations and biopower plants.

Condition based maintenance (CBM) and online services developed well with 2003 a clear breakthrough year for CBM services. Altogether 130 engines are now connected to Wärtsilä's CBM centre, which monitors their performance in operation. The number of customers for Wärtsilä's online services increased as many outsourced their spare parts logistics and transactions entirely to Wärtsilä.

The Ciserv group of service companies is present at seven key locations along major maritime routes, strengthening Wärtsilä's service coverage of two-stroke engines. In spring Wärtsilä acquired the Dutch marine engine service company Caltax Marine

Gross capital expenditure



Gross capital expenditure

MEUR	2003	2002
Investments in securities and acquisitions		
Power Divisions	2.6	348.6
Imatra Steel		0.0
Total	2.6	348.6
Other investments		
Power Divisions	51.2	58.7
Imatra Steel	11.6	16.0
Total	62.8	74.7
Group	65.4	423.3

Diesel B.V., today called Ciserv Netherlands B.V. Ciserv also started operations in Dubai and in Long Beach, California, USA. Wärtsilä will continue to expand the Ciserv group through acquisitions at other key maritime locations around the globe.

Technology and manufacturing

Capacity utilization in 2003 was lower than one year earlier. Capacity load was relatively good at the Vaasa and Trieste factories. A large number of employees at the Turku factory were laid off early in the year owing to low capacity load. Wärtsilä plans to discontinue the manufacture of the high-speed W200 and W220SG engines at Mulhouse, France. Negotiations with personnel are in progress. On 14 January 2004 Wärtsilä announced a plan to discontinue manufacturing at the Turku factory and to move production of the W46 engine to Trieste in Italy.

The company's aim is to adjust to low production volumes by concentrating engine manufacturing at two factories, Vaasa and Trieste, both of which have the flexibility to make several engine types according to market demand. Wärtsilä plans to put these changes into effect during 2004.

These measures will have no impact on the Group's research and development activities, the scope of which will remain unchanged in Vaasa and Winterthur.

The focus of Wärtsilä's R&D activities is on environmentally sustainable and reliable engine technology. Common rail technology was further developed and is now applied on both two-stroke and four-stroke engines. The first RT-flex two-stroke engine with this technology has accumulated roughly 12,500 running hours and the first four-stroke engine, roughly 9,000 running hours likewise. Co-operation with Mitsubishi on the development of a new low-speed engine continued as planned and the prototype will be started at the latest at the beginning of 2005. Ongoing test runs with the Wärtsilä 50DF gas engine verify this engine's designed performance values in operation.

Imatra Steel

Conditions in the special engineering steels market in Europe remained uncertain throughout 2003 as companies waited for the next business upswing. Sharp increases in raw materials and energy prices, along with temporary raw material shortages, increased instability further. Demand for long special steels remained at the previous year's level.

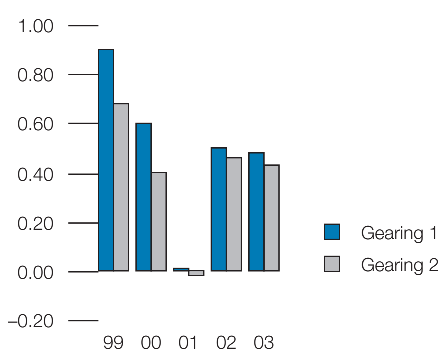
Truck production declined roughly 3% in Europe even though the number of vehicle registrations increased by some 2% on the previous year. The corresponding fall in car registrations was about 1%. Demand for steel in the mechanical engineering industry and among wholesalers remained weak.

Imatra Steel's net sales totalled EUR 202.7 (200.4) million, which was 1.2% more than in the previous year. Comparable net sales, excluding the spring business, grew 4%. The growth was derived from the company's forging business, where both Imatra Kilsta and Scottish Stampings reported increased delivery volumes. The volume of deliveries by the Imatra Steel Works slightly declined however and the delivery volume was 218,000 (226,000) tonnes. The operating profit was EUR 0.7 (3.2) million.

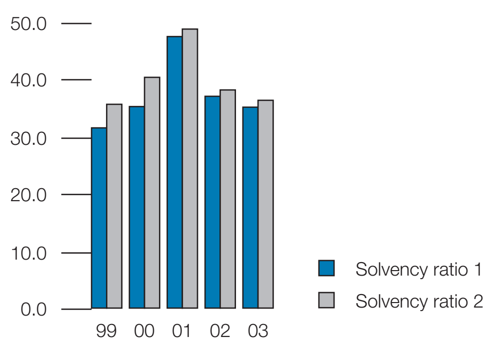
An agreement was signed in June under which Styria Group acquired the operations and assets of the Billnäs Spring Works on 31 July 2003. The impact of this divestment on Imatra Steel's result was profit-neutral after an EUR 4.4 million writedown which was made on the first quarter. Imatra Steel now concentrates on manufacturing and marketing long special steels as well as forged components for the truck industry.

The second phase of the modernization of the base metallurgical line at the Imatra Steel Works – the start-up of the continuous bloom caster and bloom reheating furnace – took place as planned in August. The aim of this three-year project, costing more than EUR 20 million, is to further improve product quality, strengthen the competitiveness of Imatra's base metallurgical line, and enhance the steel works' service capabilities. A new billet heating furnace was taken into operation at Scottish Stampings.

Gearing



Solvency



Imatra's R&D activities focused on the development of more environmentally friendly products, including lighter forged crankshafts and front axle beams. A personnel streamlining programme started at Imatra in autumn 2002 to adjust employee numbers to lower production and delivery volumes was implemented during the year. This will result in 90 fewer employees by the end of 2004. At the same time Imatra Steel placed emphasis on measures to enhance the range of skills and flexibility of its employees.

Holdings

Wärtsilä owns 7.6% of Assa Abloy's shares. The market capitalization of this holding at the end of the financial year was EUR 261.9 million. Its book value in the Group's balance sheet is EUR 67.4 million.

In October Wärtsilä sold its holding of Polar shares, yielding a capital gain of EUR 15.9 million that was recorded in the last quarter.

Wärtsilä Real Estate sold properties and shares in property companies totalling EUR 6.5 (16.8) million during 2003, generating a profit of EUR 4.4 (0.4) million. At the end of the year the properties managed by Wärtsilä Real Estate, excluding the properties used by Wärtsilä itself, had a total book value of EUR 20.7 (21.9) million.

Personnel

The Group had 12,293 (12,417) employees on average during the year and 12,110 (12,459) at the year end. The Power Divisions had 10,897 (11,068) employees at the year end.

The number of employees in the Service business rose due to an increase in operations and maintenance personnel and through acquisitions. Personnel consultations related to streamlining measures are in progress that will reduce personnel by approximately 1,100. The largest planned reductions will take place in France, Finland, the Netherlands and Norway. Most of the reductions will take place during 2004.

Sustainable development

Wärtsilä published its Sustainability Report during the year. This outlined the measures taken by the company to improve the environmental features of its products and to reduce the environmental impact of its production operations.

Debentures and option scheme

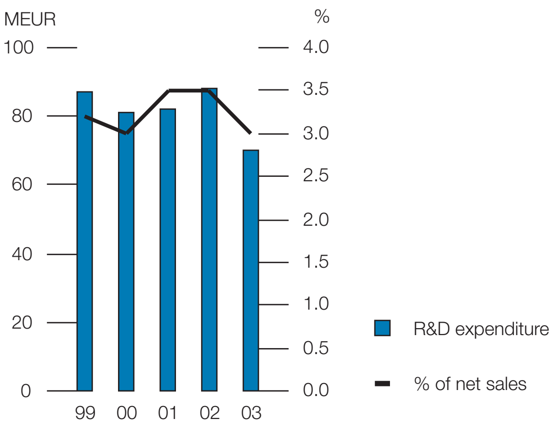
In March 1994 Wärtsilä floated two convertible capital notes issues, each of the same amount and together totalling EUR 117.7 million. One is convertible into Series A and Series B shares, and the other into Series B shares. Conversions based on these notes during 2003 amounted to 3,150 new Series A shares and 28,910 new Series B shares, carrying altogether 31,500 votes and 28,910 votes respectively. The loan principal corresponding to the conversions was EUR 385,150.35. The total loan principal remaining unconverted into shares was EUR 7,588,639.24 in the case of the notes convertible into both A and B shares, and EUR 19,886,540.42 in the case of the notes convertible into only B shares.

Wärtsilä Corporation's 1996 bond with warrants, totalling EUR 30,274, was repaid to its subscribers on 2 May 2003. Altogether 124 warrants were exercised to subscribe for 148,800 Series B shares between 2 January and 2 May 2003.

Conversions and subscriptions during 2003 raised Wärtsilä's share capital by altogether EUR 633,010. Following this increase Wärtsilä's share capital is EUR 208,774,902.00 and there are altogether 59,649,972 shares: 15,419,005 Series A shares and 44,230,967 Series B shares. The A shares carry altogether 154,190,050 votes and the B shares 44,230,967 votes.

Share subscriptions under the warrant scheme approved by the 2002 AGM begin on 1 April 2004 and end on 31 March 2008 since the 4% minimum profitability target set by the Board of Directors for 2003 was reached.

R&D expenditure



Interest-bearing loan capital

MEUR	2003	2002
Long-term liabilities	288.2	281.2
Current liabilities	208.6	343.1
Convertible subordinated debentures	27.5	27.9
Loan receivables	–21.2	–35.7
Cash and bank balances	–150.0	–185.8
Net	353.2	430.6

Changes to ownership structure

Following a share transaction on 11 September 2003, Sampo Life Insurance Company raised its holding of voting rights in Wärtsilä Corporation to a level exceeding 5%. Following share transactions in October and November If P&C Insurance Company no longer holds any Wärtsilä shares.

Annual General Meeting

Wärtsilä's Annual General Meeting, held on 12 March 2003, decided that the Board of Directors would have six members. Göran J. Ehrnrooth, Risto Hautamäki, Jaakko Iloniemi, Antti Lagerroos, Bertel Langenskiöld and Paavo Pitkänen were elected to the Board. The Board elected Antti Lagerroos as its Chairman and Göran J. Ehrnrooth as the Deputy Chairman.

The AGM decided to pay for the financial year 2002 a normal dividend of EUR 0.25 (0.50) per share and an extra dividend of EUR 1.50 (3.50) per share, making a total dividend of EUR 1.75 (4.00) per share.

The firm of authorized public accountants KPMG Wideri Oy Ab were appointed to be the company's auditors.

With respect to the extra dividend the AGM decided that the conversion ratio of the 1994 convertible subordinated debentures, as well as the subscription price of the Wärtsilä shares subscribable under the 1996 bond with warrants and the 2001 and 2002 stock option schemes, be changed corresponding to the amount of the extra dividend.

Authorization to repurchase and dispose of own shares

The Annual General Meeting on 12 March 2003 authorized the Board of Directors for one year to repurchase the company's own shares in public trading on the Helsinki Exchanges at the prevailing price, and other than in proportion to the holdings of the shareholders. At most 5% of all the shares and votes may be repurchased. The 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' pre-emptive rights of subscription. These authorizations have not yet been exercised.

Proposals to the 2004 Annual General Meeting

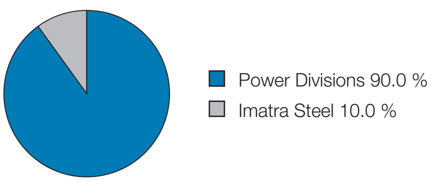
The Board of Directors proposes to the Annual General Meeting on 15 March 2004 that a dividend of EUR 0.75 per share be distributed on the financial year ended 31 December 2003.

The Board proposes that the AGM authorize the Board to repurchase and dispose of the company's own A and B shares in proportion to the number of shares in each series provided that the total nominal value of the purchased shares shall not exceed five per cent (5%) of the company's total share capital and voting rights. The company's own shares may be purchased using only distributable funds.

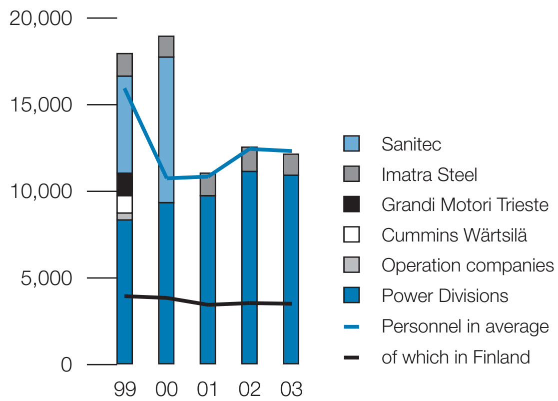
The shares may be purchased only in public trading at the prevailing price. The purchased shares may be used as consideration in future mergers and acquisitions or industrial reorganizations or for the development of the capital structure of the company or as part of its management incentive system. The shares may be purchased or disposed of for other consideration than cash.

The Board will be authorized to determine to whom and in what order the company's own shares shall be disposed of. The Board may decide on the disposal of the shares otherwise than in proportion to shareholders' pre-emptive subscription rights. The Board shall decide on the disposal price of the shares and on the other terms related to their disposal, and the shares may be disposed of for other consideration than cash. The authorization includes the right to set the principles used to determine the disposal price. The shares may be disposed of as

Personnel by division 31 Dec. 2003



Personnel by division



consideration in future mergers and acquisitions or industrial reorganizations or for the development of the capital structure of the company or as part of its management incentive system.

This authorization will remain in force for one year from the resolution of the Annual General Meeting. Should it grant this authorization, the AGM at the same time revokes the Board's previous corresponding authorization.

Prospects in 2004

Demand for low-speed engines reached a record level in 2003 fuelled by the extremely sharp surge in orders for tankers, container vessels and bulk carriers. This has already resulted in a shortage of shipyard capacity. Demand for low-speed engines is expected to decline in the years ahead.

In Wärtsilä's traditional medium-speed engine markets – cruise ships, RoPax vessels and the offshore sector – demand is expected to pick up.

Interest in complete ship power systems has increased substantially and Wärtsilä's aim is to broaden its range of complete ship propulsion systems, for example through acquisitions.

Signs are visible of a recovery in demand for power plants although the exchange rate development of the US dollar is creating uncertainty. There is increasing need in the main power plant markets for new electricity generation capacity, and at the year end the investment and financial climate showed signs of greater interest. Moreover, the recent large electricity blackouts in various countries are also creating demand for our products since Wärtsilä's power plant solutions are ideally suited for decentralized power generation.

No significant changes are expected in relative amounts of Wärtsilä engines in operation in ships and power plants compared to 2003 and Wärtsilä's active engine base is forecast to remain at its previous level. In its Service business, Wärtsilä will seek growth especially by increasing its market share in servicing of Sulzer engines. The service business will grow at the same pace as in 2003.

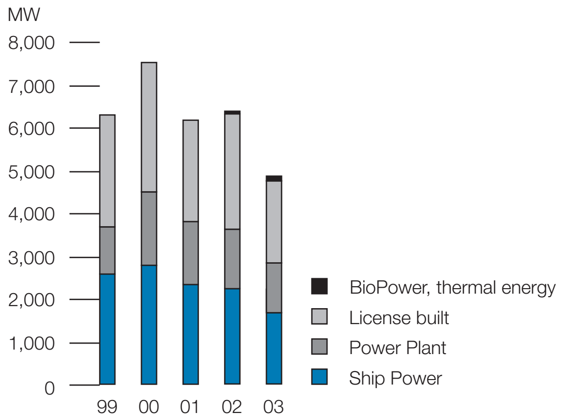
Net sales of the Power Divisions is expected to rise and operational profitability to improve slightly during 2004. Unfavourable exchange rate trends will increase competition on prices. The impact of capacity reductions on the company's performance will become visible during 2005. The Power Divisions will reach the 7–8% operating profit target by the end of 2005.

Demand is expected to improve in the special steels and automotive markets during 2004. Imatra Steel's net sales are expected to increase and its result to improve due to investments and streamlining measures.

4 February 2004

Board of Directors

Megawatts delivered



Group financial statements

Group, Income statement

MEUR	note	2003	%	2002	%
Net sales	1,2	2,357.5	100.0	2,519.0	100.0
Change in inventories of					
finished goods & work in progress		–24.0		–72.0	
Production for own use		1.6		1.3	
Other operating income	3	37.9		138.3	
Materials and services					
Materials and consumables					
Purchases during the financial year		–809.4		–977.7	
Change in inventories		–25.0		19.0	
External services		–532.5		–523.6	
		–1,367.0		–1,482.3	
Personnel expenses	4	–554.4		–548.9	
Depreciation and writedowns	5	–156.0		–105.4	
Other operating expenses		–314.0		–261.6	
Share of profits/losses in associated companies		0.0		0.4	
Operating result		–18.4	–0.8	188.9	7.5
Financial income and expenses	6				
Income from financial assets		6.8		7.1	
Other interest income and other financial income		12.6		15.1	
Exchange gains and losses		–0.5		–7.1	
Interest expenses and other financial expenses		–34.8		–33.6	
		–15.9		–18.5	
Result before taxes		–34.4		170.4	
Income taxes	8	–4.0		–47.6	
Minority interests		–0.9		–1.0	
Result for the financial period		–39.3	–1.7	121.9	4.8

Group Financial analysis

MEUR	2003	2002
Cash flow from operating activities		
Operating result	–18.4	188.9
Adjustments for:		
Share of profits/losses in associated companies	0.0	–0.4
Depreciation and writedowns	156.0	105.4
Selling profit and loss of fixed assets	–24.2	–112.5
Other adjustments	1.5	
Cash flow before changes in working capital	114.9	181.3
Changes in working capital		
Current assets, non-interest bearing, increase(-)/decrease(+)	22.4	23.3
Inventories, increase (-)/decrease(+)	59.3	56.1
Current liabilities, non-interest bearing, increase(+)/decrease(-)	14.4	–148.4
	96.2	–69.0
Cash flow from operating activities before financial items and taxes	211.1	112.3
Interest and other financial expenses	–41.5	–45.2
Dividend income from operating activities	0.7	
Interest and other financial income from operating activities	38.7	15.0
Income taxes	–16.9	–26.7
	–19.0	–56.9
Cash flow from operating activities (A)	192.1	55.4
Cash flow from investing activities:		
Investments in subsidiary shares	–1.3	–347.7
Investments in other shares	–1.3	–7.0
Investments in other tangible and intangible assets	–62.8	–74.7
Proceeds from sale of shares	10.8	153.0
Proceeds from sale of tangible and intangible assets	28.2	18.7
Loan receivables, increase(-), decrease(+)	0.9	–1.2
Dividends received from investments	6.6	6.3
Taxes on sales of shares	–3.3	–33.9
Cash flow from investing activities (B)	–22.2	–286.5
Cash flow after investing activities	169.9	–231.1
Cash flow from financing activities:		
Issuance of share capital	1.4	
Loans receivable, increase (-)/decrease(+)	7.1	6.2
Current loans, increase (+)/decrease(-)	–62.5	254.0
New long-term loans	303.0	472.0
Amortization and other changes to long-term loans	–337.0	–276.1
Paid dividends	–104.6	–238.6
Other changes	–13.1	14.9
Cash flow from financing activities (C)	–205.8	232.3
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	–35.9	1.3
Liquid funds at beginning of period	185.8	184.6
Liquid funds at end of period	150.0	185.8

The impact of changes in exchange rates on consolidation has been eliminated.

Balance sheet, Assets

MEUR	note	31 Dec. 2003	%	31 Dec. 2002	%
Fixed assets	9				
Intangible assets					
Intangible rights		14.6		17.2	
Goodwill on consolidation		354.0		390.2	
Other long-term expenditure		22.7		30.6	
		391.3	16.4	438.0	16.3
Tangible assets					
Land and water		37.5		38.7	
Buildings and structures		116.7		136.9	
Machinery and equipment		177.5		222.5	
Other tangible assets		24.8		31.0	
Advance payments and construction in progress		32.8		32.0	
		389.3	16.3	461.1	17.2
Financial assets					
Shares in associated companies		2.7		3.4	
Receivables from associated companies		2.3		2.8	
Other shares and securities		96.8		108.1	
Other receivables		4.8		5.3	
		106.7	4.5	119.6	4.5
Total fixed assets		887.3	37.2	1,018.7	37.9
Current assets					
Inventories					
Materials and consumables		250.6		280.8	
Work in progress		261.2		293.3	
Finished products/goods		36.3		36.7	
Advance payments		7.4		17.3	
		555.5	23.3	628.1	23.4
Long-term receivables	10				
Trade receivables				0.8	
Loan receivables		7.2		9.2	
Deferred tax assets	11	66.6		56.3	
Other receivables		0.5		0.3	
Prepaid expenses and accrued income	13	0.3		0.1	
		74.6	3.1	66.7	2.5
Short-term receivables	12				
Trade receivables		547.1		606.0	
Receivables from associated companies		4.6		3.2	
Loan receivables		10.6		28.9	
Deferred tax assets	11	10.1		10.9	
Other receivables		63.2		59.3	
Prepaid expenses and accrued income	13	79.7		77.3	
		715.4	30.0	785.6	29.3
Financial assets					
Shares and securities		11.1		9.4	
Other securities		4.0		4.8	
		15.0	0.6	14.2	0.5
Cash and bank balances		134.9	5.7	171.6	6.4
Total current assets		1,495.6	62.8	1,666.3	62.1
Assets		2,382.9	100.0	2,685.0	100.0

Shareholder's equity and liabilities MEUR	note	31 Dec. 2003	%	31 Dec. 2002	%
Shareholders' equity	14,15				
Share capital		208.8		208.1	
Share premium reserve		117.9		117.1	
Other reserves		62.4		51.1	
Retained earnings		427.5		426.9	
Loss for the financial year		-39.3		121.9	
		777.1	32.6	925.2	34.5
Convertible subordinated debentures		27.5	1.2	27.9	1.0
Total shareholders' equity		804.6	33.8	953.1	35.5
Minority interests		6.1	0.3	6.5	0.2
Provisions	16				
Provisions for pensions		39.7		40.7	
Other provisions		195.5		197.5	
		235.1	9.9	238.2	8.9
Liabilities	17				
Long-term					
Loans from credit institutions		204.6		171.4	
Pension loans		77.7		103.4	
Deferred tax liability	18	38.1		39.9	
Other long-term liabilities		6.8		7.9	
		327.2	13.7	322.7	12.0
Current	20				
Loans from credit institutions		179.3		312.6	
Pension loans		25.7		26.3	
Advances received		142.8		158.9	
Trade payables		353.9		321.6	
Liabilities to associated companies		0.4		1.3	
Other current liabilities		33.8		40.0	
Accrued expenses and deferred income	19	274.1		303.8	
		1,009.9	42.4	1,164.6	43.4
Total liabilities		1,337.1	56.1	1,487.3	55.4
Shareholders' equity and liabilities		2,382.9	100.0	2,685.0	100.0

Parent Company financial statements

Parent Company, Income statement

MEUR	note	2003	2002
Net sales		7.6	7.0
Other operating income	3	33.3	138.9
Personnel expenses	4	–17.5	–15.1
Depreciation and writedowns	5	–6.7	–5.1
Other operating expenses		–31.4	–40.8
Operating result		–14.7	85.1
Financial income and expenses	6		
Income from financial assets		5.7	12.9
Other interest income and other financial income		32.4	37.1
Exchange gains and losses		22.1	17.5
Interest expenses and other financial expenses		–27.0	–23.9
		33.3	43.6
Result before extraordinary items		18.5	128.7
Extraordinary items	7		
Group contribution		16.2	–20.0
Result before appropriations and taxes		34.7	108.7
Appropriations			
Change in depreciation differences	5	–0.3	0.1
Result before taxes		34.4	108.8
Income taxes	8	–6.1	–30.9
Result for the financial period		28.2	77.9

Paret Company, Financial analys

MEUR	2003	2002
Cash flow from operating activities		
Operating result	–14.7	85.1
Adjustments for:		
Depreciation and writedowns	6.7	5.1
Selling profit and loss of fixed assets	–18.4	–120.8
Cash flow before changes in working capital	–26.4	–30.6
Changes in working capital		
Current assets, non-interest bearing, increase(-)/decrease(+)	–3.0	0.0
Current liabilities, non-interest bearing, increase(+)/decrease(-)	4.0	1.3
	1.0	1.3
Cash flow from operating activities before financial items and taxes	–25.4	–29.3
Interest and other financial expenses	–41.0	–23.9
Received dividends from operating activities	0.2	0.1
Interest and other financial income from operating activities	71.0	49.2
Income taxes	–2.8	2.9
	27.4	28.3
Cash flow from operating activities (A)	2.0	–1.0
Cash flow from investing activities:		
Investments in shares	–0.7	–2.2
Investments in other tangible and intangible assets	–11.9	–15.6
Proceeds from sale of shares	19.8	144.5
Proceeds from sale of tangible and intangible assets	3.2	7.3
Loan receivables, increase(-), decrease(+)	1.5	–1.6
Dividends received from investments	5.6	6.0
Taxes on sales of shares	–3.3	–33.9
Cash flow from investing activities (B)	14.1	104.5
Cash flow after investing activities	16.1	103.5
Cash flow from financing activities:		
Issuance of share capital	1.4	
Loans receivable, increase (-)/decrease(+)	88.0	–227.9
Current loans, increase (+)/decrease(-)	–25.3	190.4
New long-term loans	301.8	453.4
Amortization and other changes to long-term loans	–279.9	–268.0
Group contributions	–20.0	–34.0
Paid dividends	–104.1	–237.8
Other changes	0.0	2.7
Cash flow from financing activities (C)	–38.1	–121.1
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	–22.0	–17.6
Liquid funds at beginning of period	97.6	115.2
Liquid funds at end of period	75.6	97.6

Parent Company, Assets

MEUR	note	31 Dec. 2003	31 Dec. 2002
Fixed assets	9		
Intangible assets			
Intangible rights		1.1	1.2
Other long-term expenditure		16.7	14.5
		17.8	15.6
Tangible assets			
Land and water		16.5	17.2
Buildings and structures		6.6	7.1
Machinery and equipment		3.1	3.9
Other tangible assets		0.8	0.5
Advance payments and construction in progress		16.0	12.5
		43.0	41.2
Financial assets			
Shares in Group companies		528.8	529.5
Long term loans receivable from Group companies		4.0	4.9
Shares in associated companies		0.0	0.0
Receivable from associated companies		2.3	2.8
Other shares and securities companies		53.1	55.8
Other receivable		3.2	3.2
		591.4	596.3
Fixed assets and other long-term financial assets		652.2	653.1
Current assets			
Long term receivables	10		
Trade receivables			0.8
Loan receivables		3.9	3.3
Prepaid expenses and accrued income		0.0	0.0
		3.9	4.1
Short term receivables	12		
Trade receivables		7.2	8.2
Receivables from Group companies		791.8	870.5
Receivables from associated companies		3.3	0.0
Loan receivables		0.4	0.5
Other receivables		5.4	5.2
Prepaid expenses and accrued income	13	11.8	12.2
		819.8	896.6
Financial assets			
Other securities		4.0	4.8
Cash and bank balances		71.6	92.9
Total current assets		899.3	998.3
Assets		1,551.5	1,651.4

Shareholders' equity and liabilities

MEUR	note	31 Dec. 2003	31 Dec. 2002
Shareholders' equity	14,15		
Share capital		208.8	208.1
Share premium reserve		117.9	117.1
Retained earnings		544.6	571.4
Result for the financial year		28.2	77.9
		899.5	974.6
Convertible subordinated debentures		27.5	27.9
Total shareholders' equity		927.0	1,002.5
Accumulated appropriations			
Depreciation difference		4.8	4.4
Provisions	16	2.5	4.0
Liabilities	17		
Long-term			
Loans from credit institutions		148.4	104.2
Pension loans		57.2	78.9
		205.5	183.1
Current	20		
Loans from credit institutions		164.5	256.8
Pension loans		21.8	21.8
Advances received			0.0
Trade payables		6.9	1.9
Liabilities to Group companies		196.2	152.5
Other current liabilities		1.8	1.7
Accrued expenses and deferred income	19	20.5	22.7
		411.7	457.4
Total liabilities		617.2	640.5
Shareholders' equity and liabilities		1,551.5	1,651.4

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 provisions 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, warranty provisions, 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 statement

MEUR	2003	%	2002	%	2003	%	2002	%
	Group				Power Divisions			
1. Net sales by country								
Italy	154.9	6.6	198.5	7.9	143.1	6.6	187.1	8.1
France	132.0	5.6	145.0	5.8	113.9	5.3	128.1	5.5
Germany	126.1	5.3	140.1	5.6	97.4	4.5	112.2	4.8
Sweden	101.0	4.3	86.9	3.5	30.4	1.4	18.6	0.8
Great Britain	93.0	3.9	88.0	3.5	67.4	3.1	62.7	2.7
Spain	92.6	3.9	50.7	2.0	91.8	4.3	49.4	2.1
The Netherlands	89.6	3.8	85.7	3.4	88.9	4.1	84.8	3.7
Norway	83.7	3.6	124.0	4.9	79.4	3.7	118.6	5.1
Finland	68.4	2.9	84.5	3.4	38.7	1.8	56.8	2.4
Denmark	47.1	2.0	47.7	1.9	45.7	2.1	46.2	2.0
Portugal	31.7	1.3	21.6	0.9	31.7	1.5	21.6	0.9
Other European countries	156.9	6.7	156.7	6.2	150.7	7.0	147.1	6.3
Europe	1,177.1	49.9	1,229.3	48.8	979.0	45.4	1,033.2	44.5
Middle East	116.5	4.9	138.3	5.5	115.8	5.4	138.1	6.0
China and Hong Kong	101.7	4.3	92.1	3.7	101.7	4.7	92.1	4.0
India	100.3	4.3	108.7	4.3	100.3	4.7	108.7	4.7
Japan	72.5	3.1	75.3	3.0	72.5	3.4	75.3	3.2
Korea	49.7	2.1	68.3	2.7	49.7	2.3	68.3	2.9
Indonesia	42.2	1.8	24.9	1.0	42.2	2.0	24.9	1.1
Singapore	41.3	1.8	45.1	1.8	40.7	1.9	44.8	1.9
Pakistan	14.8	0.6	19.9	0.8	14.8	0.7	19.9	0.9
Other Asian countries	89.8	3.8	79.6	3.2	89.8	4.2	79.6	3.4
Asia	628.7	26.7	652.4	25.9	627.5	29.1	651.9	28.1
USA and Canada	140.8	6.0	177.1	7.0	138.8	6.4	175.0	7.5
Central America	123.1	5.2	146.5	5.8	123.1	5.7	146.5	6.3
South America	114.8	4.9	225.6	9.0	114.8	5.3	225.6	9.7
The Americas	378.8	16.1	549.2	21.8	376.7	17.5	547.1	23.6
African countries	137.1	5.8	66.1	2.6	137.1	6.4	66.1	2.8
Other countries	35.9	1.5	22.1	0.9	35.5	1.6	21.7	0.9
Total	2,357.5	100.0	2,519.0	100.0	2,155.8	100.0	2,319.9	100.0

	Group		Parent Company	
	2003	2002	2003	2002
2. Projects for which percentage of completion method is applied				
Recognized accumulated income				
Uncompleted projects	764.3	446.8		
Unrecognized part of income	271.7	92.1		
Recognized accumulated contribution	14.8	23.2		
3. Other operating income				
Rental income	3.3	2.5	2.8	2.8
Profit on sales of fixed assets	24.2	116.9	18.4	123.4
Other operating income	10.4	18.9	12.1	12.7
Total	37.9	138.3	33.3	138.9
4. Personnel expenses				
Wages and salaries	447.7	434.2	13.7	11.7
Pension costs	22.5	24.8	2.7	2.6
Other compulsory personnel costs	84.2	89.9	1.2	0.7
Total	554.4	548.9	17.5	15.1

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

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Salaries and emoluments to senior management				
Presidents and members of the Board of Directors	16.0	16.6	0.9	0.7

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.

	Group		Parent Company	
	2003	2002	2003	2002
Personnel on average				
Power Divisions	10,976	11,024	198	177
Imatra Steel	1,317	1,393		
Total	12,293	12,417	198	177

5. Depreciation and write downs

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Depreciation according to plan				
Intangible assets	3.4	2.5	0.1	0.0
Goodwill on consolidation	27.0	22.8		
Other long-term expenditure	7.3	5.4	4.9	3.3
Buildings and structures	10.8	13.7	0.6	0.6
Machinery and equipment	46.7	48.9	1.2	1.1
Other tangible assets	5.8	9.8	0.0	0.0
Construction in progress	0.1		0.0	
Total depreciation according to plan	101.0	103.1	6.7	5.1
Total book depreciation			7.0	5.0
Depreciation difference			–0.3	0.1
Adjustment of depreciation difference on sold fixed assets			–0.1	0.0
Write down of fixed assets	55.0	2.3		
Depreciation difference on January 1			4.4	4.6
Change in the depreciation difference			0.3	–0.1
Depreciation difference on December 31			4.8	4.4

6. Financial income and expenses

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Dividend income				
from Group companies				4.3
from associated companies	0.2		0.2	
from other companies	6.6	7.1	5.6	8.6
Total	6.8	7.1	5.7	12.9
Other interest income				
from Group companies			25.2	29.3
from other companies	10.7	13.7	6.0	7.5
Total	10.7	13.7	31.2	36.8
Other financial income				
from Group companies			0.0	0.1
from other companies	1.9	1.3	1.2	0.2
Total	1.9	1.3	1.2	0.3
Exchange gains and losses	–0.5	–7.1	22.1	17.5
Write downs of financial assets	–0.0	–0.1		
Interest expenses				
to Group companies			–3.2	–3.7
to other companies	–29.5	–28.5	–21.2	–18.6
Total	–29.5	–28.5	–24.4	–22.3
Other financial expenses to other companies	–5.3	–5.0	–2.6	–1.6
Financial income and expenses, total	–15.9	–18.5	33.3	43.6

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
7. Extraordinary income and expenses				
Group contributions			16.2	–20.0
8. Income taxes				
Income taxes on operation				
for the financial year	–35.3	–54.1	–8.0	–30.5
for prior years	19.7	–4.7	1.9	–0.5
Change in deferred tax	11.5	11.3		
Total	–4.0	–47.6	–6.1	–30.9
Income taxes on extraordinary items			–4.7	5.8

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	25.7	0.9		–8.6		–3.4	–0.0	14.6
Goodwill on consolidation	450.9	0.6	–2.6	–67.9		–27.0		354.0
Other long-term expenditure	94.7	9.1		–65.1		–7.3	–8.7	22.7
Group 2003	571.3	10.7	–2.6	–141.7		–37.6	–8.7	391.3
Group 2002	256.5	315.9		–103.7		–30.7		438.0
Tangible assets								
Land and water	38.6	0.5	–1.6	–0.1				37.5
Buildings and structures	237.1	2.9	–8.8	–100.8	5.2	–10.8	–8.1	116.7
Machinery and equipment	629.5	36.1	–6.1	–403.8	6.1	–46.7	–37.6	177.5
Construction in progress	20.9	12.3		–0.4		–0.1		32.7
Other tangible assets	59.0	5.2	–6.9	–31.5	5.4	–5.8	–0.6	24.8
Advances paid	0.0	0.2						0.2
Group 2003	985.1	57.2	–23.3	–536.6	16.6	–63.4	–46.3	389.3
Group 2002	1,041.3	115.6	–142.4	–538.4	59.6	–72.4	–2.3	461.1
Financial assets								
Shares in associated companies	3.4	0.0	–0.7	–0.0				2.7
Receivables from associated companies	2.8		–0.5	–0.0				2.3
Shares in other companies	101.9	1.3	–5.7	–0.7				96.8
Receivables from other companies	5.3		–0.5					4.8
Group 2003	113.5	1.3	–7.4	–0.7				106.7
Group 2002	158.3	6.9	–44.7	–0.9				119.7

	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	1.5			–0.3		–0.1		1.1
Other long-term expenditure	33.2	7.1		–18.7		–4.9		16.7
Parent Company 2003	34.7	7.1		–19.1		–4.9		17.8
Parent Company 2002	24.3	10.4		–15.7		–3.3		15.6
Tangible assets								
Land and water	17.2	0.0	-0.7					16.5
Buildings and structures	25.1	0.8	-2.2	–18.3	1.7	–0.6		6.6
Machinery and equipment	12.0	0.4	-0.0	–8.2	0.0	–1.2		3.1
Construction in progress	12.5	3.5						16.0
Other tangible assets	1.8	0.1	-0.0	–0.9		–0.0		0.8
Parent Company 2003	68.7	4.8	-2.9	–27.5	1.7	–1.8		43.0
Parent Company 2002	66.6	5.1	-1.4	–27.5	0.1	–1.8		41.2
Financial assets								
Shares in Group companies	529.5		-0.7					528.8
Receivables from Group companies	4.9		-1.0					4.0
Shares in associated companies	0.0	0.0	-0.0					0.0
Receivables from associated companies	2.8		-0.5					2.3
Shares in other companies	55.8	0.7	-3.4					53.1
Receivables from other companies	3.2		-0.0					3.2
Parent Company 2003	596.2	0.7	-5.5					591.4
Parent Company 2002	613.6	4.9	-22.3					596.3

	Group		Parent Company	
	2003	2002	2003	2002
10. Specification of long-term receivables				
Receivables from Group companies				
Long-term investments			4.0	4.9
Loan receivables			1.2	
Total			5.2	4.9
Receivables from associated companies				
Long-term investments	2.3	2.8	2.3	2.8
11. Specification of deferred tax assets				
Tax loss carry forward	32.8	45.2		
Temporary differences	31.2	7.4		
Group eliminations	12.8	14.6		
Total	76.7	67.2		
12. Specification of short-term receivables				
Receivables from Group companies				
Trade receivables			5.2	8.4
Loan receivables			782.4	854.1
Prepaid expenses and accrued income			4.1	8.1
Total			791.8	870.5
Receivables from associated companies				
Trade receivables	1.3	3.2	0.0	0.0
Prepaid expenses and accrued income	3.3	0.0	3.3	
Total	4.6	3.2	3.3	0.0

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
13. Main items in prepaid expenses and accrued income				
Interest	3.8	2.9	3.1	2.5
Other financial items	9.0	7.1	8.1	5.4
Income and other taxes	16.6	23.8		2.6
Other items	50.7	43.6	0.5	1.7
Total	80.1	77.4	11.8	12.2
14. Shareholders' equity				
Share capital				
Share capital on January 1				
Series A	54.0	54.0	54.0	54.0
Series B	154.2	154.1	154.2	154.1
Total	208.1	208.1	208.1	208.1
Subscription based on warrants	0.5		0.5	
Conversion of debentures	0.1	0.1	0.1	0.1
Total	0.6	0.1	0.6	0.1
Share capital on December 31				
Series A	54.0	54.0	54.0	54.0
Series B	154.8	154.1	154.8	154.1
Total	208.8	208.1	208.8	208.1
Share premium reserve				
Share premium reserve on January 1	117.1	117.0	117.1	117.0
Issue premium	0.7	0.2	0.7	0.2
Share premium reserve on December 31	117.9	117.1	117.9	117.1
Other reserves				
Other reserves on January 1	51.1	60.5		
Transfers from retained earnings	0.5	1.1		
Translation difference and other changes	10.7	–10.5		
Other reserves on December 31	62.4	51.1		
Retained earnings				
Retained earnings on January 1	548.8	658.0	649.3	810.6
Transfer to other reserves	–0.5	–1.1		
Ordinary dividend distribution	–14.9	–29.7	–14.9	–29.7
Extra dividend distribution	–89.2	–208.1	–89.2	–208.1
Reversal of revaluation	–0.6	–1.3	–0.6	–1.3
Change in deferred tax liability on revaluation	0.2	0.4		
Net change in translation differences	–16.3	8.8		
Profit/loss for the year	–39.3	121.9	28.2	77.9
Retained earnings on December 31	388.1	548.8	572.9	649.3
Distributable equity				
Retained earnings on December 31	388.1	548.8	572.9	649.3
Voluntary provisions and depreciation difference	–29.4	–37.0		
Deferred tax liability	9.0	11.2		
Undistributable share issue gains	–6.1	–6.1		
Distributable equity	361.6	516.9	572.9	649.3

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
15. Convertible subordinated debentures	27.5	27.9	27.5	27.9

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 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 1,681.88 convertible into Series A shares may be exchanged for 70 Series A shares and 70 Series B shares. The aggregate conversion price of one Series A share and one Series B share is EUR 24.02.
- Each bond of nominal value EUR 1,681.88 convertible into Series B shares may be exchanged for 140 Series B shares. The aggregate conversion price of two Series B shares is EUR 24.02.
- 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, 2003 altogether 3,150 Series A shares and 28,910 Series B shares had been converted. This represents a loan capital of EUR 385,150.35 and by this amount the principal has decreased.

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
16. Provisions				
Provision for pension	39.7	40.7		
Other provisions:				
Provision for warranty liabilities	60.5	84.2		
Foreseeable losses	13.4	26.3		
Litigation	13.1	11.2		
Other	108.4	75.8	2.5	4.0
Other provisions total	195.5	197.5	2.5	4.0
Provisions total	235.1	238.2	2.5	4.0
Change in provisions	–3.1	–29.4	–1.4	0.0
17. Liabilities				
Long-term				
Non-interest-bearing	39.0	41.5		
Interest-bearing	288.2	281.2	205.5	183.1
Total	327.2	322.7	205.5	183.1
Current				
Non-interest-bearing	801.3	821.5	31.4	50.3
Interest-bearing	208.6	343.1	380.2	407.1
Total	1,009.9	1,164.6	411.7	457.4
Bond with warrants 1996		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 ended on May 2, 2003.
- 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

	Bank loans	Pension loans	Other loans	Total	Maturing credit facilities
2004	10.7	25.7	1.1	37.6	67.4
2005	11.0	25.1	2.9	39.0	82.4
2006	9.7	25.1	0.1	34.8	38.0
2007	11.2	16.9		28.1	93.5
2008	9.3	3.3		12.6	30.0
2009-	163.4	7.4	3.0	173.7	
Total 31.12.2003	215.3	103.4	7.1	325.8	311.3
Total 31.12.2002	222.9	129.8	7.4	360.1	355.3

Division of long-term loans by currency	31 December 2003	31 December 2002
EUR	91%	73%
GBP	6%	6%
USD	0%	13%
Other currencies	3%	8%

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002

18. Specification of deferred tax liabilities

	2003	2002		
Untaxed reserves	16.4	16.8		
Revaluation	4.4	4.9		
Temporary differences	10.7	11.6		
Group eliminations	6.6	6.6		
Total	38.1	39.9		

19. Main items in accrued expenses and deferred income

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Project costs	83.7	83.6		
Income and other taxes	21.1	32.9	2.9	0.0
Personnel costs	70.3	74.7	2.7	3.6
Interest and other financial items	27.2	42.7	12.9	12.8
Other	71.8	69.7	2.0	6.2
Total	274.1	303.8[1]	20.5	22.7

[1]The way of reporting warranty liabilities has changed during year 2003. Warranty liabilities are now included in provisions.

20. Specification of current liabilities

Liabilities to Group companies	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Trade payables			1.8	4.3
Other current liabilities			194.3	148.2
Total			196.2	152.5

Liabilities to associated companies	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Trade payables	0.3	1.2		
Accrued expenses and deferred income	0.1	0.1		
Total	0.4	1.3		

21. Collateral, contingent liabilities and other commitments

Group	2003 Balance sheet debt	2003 Collateral	2002 Balance sheet debt	2002 Collateral
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	3.8	8.0	6.4	18.0
Pension loans	19.4	38.3	25.0	41.3
Off-balance-sheet commitments		5.4		5.4
Total	23.2	51.7	31.4	64.7
Chattel mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	5.3	13.7	1.8	1.9
Off-balance-sheet commitments	6.9	18.8	9.3	40.0
Total	12.2	32.5	11.1	41.9

Group	2003		2002	
	Balance sheet debt	Collateral	Balance sheet debt	Collateral
Parent company				
Mortgages given as collateral for liabilities and commitments				
Loans from credit institutions	1.8	9.6	4.4	9.6
Off-balance-sheet commitments		5.4		5.4
Total	1.8	15.0	4.4	15.0

	Group		Parent Company	
	2003	2002	2003	2002
Guarantees and contingent liabilities				
on behalf of Group companies	258.9	243.9	371.0	392.0
on behalf of associated companies		1.1		1.1
Nominal amounts of rents according to leasing contracts				
Payable within one year	12.1	10.9	2.3	0.6
Payable after one year	39.2	34.8	9.7	0.7
Total	51.3	45.7	12.0	1.2

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, 2003

	Total amount	of which closed contracts
Interest rate swaps	250.0	160.0
Foreign exchange forward contracts	968.9	97.0
Currency options; purchased	184.5	
Total	1,403.4	257.0

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 31.5 million.

24. Exchange rates

	Closing rates		Average rates	
	31 Dec. 2003	31 Dec. 2002	2003	2002
USD	1.26300	1.04870	1.13090	0.94491
GBP	0.70480	0.65050	0.69190	0.62876
SEK	9.08000	9.15280	9.12436	9.15906
NOK	8.41410	7.27560	7.99946	7.51009
DKK	7.44500	7.42880	7.43069	7.43052
CHF	1.55790	1.45240	1.52073	1.46717
JPY	135.05000	124.39000	130.96500	118.06583
SGD	2.14500	1.81990	1.96990	1.69032
INR	57.54900	50.28500	53.03592	46.17092

Currency distribution 2003	Invoiced sales	Operating costs
EUR	60.5%	66.2%
USD	17.5%	11.0%
SEK	3.2%	2.8%
NOK	2.7%	2.6%
Other EU	4.8%	4.3%
Other	11.4%	13.0%
	100.0%	100.0%

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		109,027
Wärtsilä Operations & Maintenance Ltd Oy	Finland	100.0	100.0	EUR		84
Wärtsilä Nederland B.V.	The Netherlands	100.0	100.0	EUR		141,400
Ciserv Netherlands B.V.	The Netherlands	100.0	100.0	EUR		956
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		41,237
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		110,345
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.	Ireland	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		81,477
Ciserv USA Inc.	USA	100.0	100.0	USD		800
Wärtsilä Development & Financial Services Inc.	USA	100.0	100.0	EUR		10,216
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		9,709
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		2,798
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	100.0	100.0	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
Wärtsilä Gulf FZE	United Arab Emirates	100.0	100.0	EUR		213

Shares and securities

Company, name and country		Share %	Votes %	Currency	Book value '000 Wärtsilä Corp. direct ownership	Indirectly owned through a subsidiary
Ciserv UAE LLC	United Arab Emirates	49.0	100.0	AED		149
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	100.0	100.0	EUR		2,261
Japan Marine Technologies Ltd	Japan	93.9	93.9	EUR		56,563
Chuwac Engineering Pte Ltd	Singapore	93.9	93.9	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		3,315
Scottish Stampings Ltd	Great Britain	100.0	100.0	SEK		46,080
Imatra Stahl GmbH	Germany	100.0	100.0	EUR		46
Imatra Steel Ltd.	Great Britain	100.0	100.0	EUR		65
Imatra Steel S.A.R.L.	France	100.0	100.0	EUR		34
Imatra Steel Components Oy	Finland	100.0	100.0	EUR		4,446
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 Corporation, other subsidiaries (4)					16	
Wärtsilä Corporation, housing and property companies (4)					680	
Total					528,832	
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		1,079
Repropel Sociedad de reparacao de helices LDA	Portugal	50.0	50.0	EUR		30
Lips Italiana SpA	Italy	50.0	50.0	EUR		892
Wärtsilä Corporation (other)					15	
Total					15	
Other companies						
Assa Abloy AB (publ.)	Sweden	7.6	22.8	EUR	44,534	
Rautaruukki Oyj	Finland	0.0		EUR	59	
Sampo Oyj	Finland	0.3		EUR	3,798	
Sato Yhtymä Oyj	Finland			EUR	1,853	135
Power Partners Oy	Finland	19.5	19.5	EUR		435
Wärtsilä Oyj Abp, other (27)					2,836	
Total					53,080	
Wärtsilä Corporation; total shares and securities					581,927	

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 EUR -0.0 million and shareholders' equity EUR 0.4 million for the financial year 2002
2) Cervuctum Oy not consolidated as an associated company. Cervectum Oy sold all its shares in Polar Oyj and changed the financial period to 1.1-30.11.2003. Result for the financial period was EUR 18.7 million and shareholders' equity including subordinated debentures EUR 22.5 million. The subordinated debentures were paid back in December. The Annual General Meeting on 18 December 2003 decided to put the company into liquidation. Wärtsilä's share of the equity is reported as receivables from associated companies.

26. Reporting according to IAS/IFRS

The consolidated financial statements of Wärtsilä Group have been prepared in accordance with the laws and regulations in force in Finland and in compliance with the company's Groupwide accounting principles. The differences compared to IAS are mainly coming from evaluation of derivatives, shares and pension liability as well as capitalization of research and development costs and timing of provisions. The reporting in accordance with IAS/IFRS will commence from beginning of year 2005. Collection of data for this purpose is continuing according to plan.

Proposal by the Board

On 31 December 2003 the consolidated retained earnings of the Group amounted to EUR 388.114.000 and included distributable funds totalling EUR 361.587.000. The Parent Company's net profit for the financial year amounted to EUR 28.233.588,81 and the retained earnings to EUR 544.620.029,02. The distributable funds of the Parent Company on 31 December 2003 amounted to EUR 572.853.617,83. The number of shares entitled to a dividend is 59.649.972. The Board of Directors proposes, that a dividend of EUR 0.75 per share to be paid i.e. totally 44.737.479,00. After this the undistributed retained earnings in the Parent Company will be EUR 528.116.138,83.

Helsinki 4 February 2004

Antti Lagerroos
Göran J Ehrnrooth
Risto Hautamäki
Jaakko Iloniemi
Bertel Langenskiöld
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 2003. 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, 9 February 2004

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 208,774,902. 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 15,419,005 Series A shares and 44,230,967 Series B shares making 59,649,972 shares in all.

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 2003 amounted to 3,150 Series A shares and 28,910 Series B shares, i.e. 32,060 shares in all. The calculated conversion rate until the Annual General Meeting on 12 March 2003 was EUR 13.56 per share, after which it was reduced to EUR 12.01 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 2003 was 1,492,337 A shares and 3,771,709 B shares, representing EUR 90.3 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. The right to subscribe for shares began on 1 September 1996 and ended on 2 May 2003, when the principal was repaid. Between 2 January and 2 May 2003 altogether 124 warrants were exercised to subscribe for a total of 148,800 Series B shares. The subscription price at the start of the year was EUR 7.99 per share until the AGM on 12 March 2003, after which it was reduced to EUR 6.49 per share following the payment of an extra dividend approved by the AGM. Altogether 216,000 Series B shares (0.4% of the total number of shares and 0.1% of the voting rights) have so far been subscribed for based on these warrants.

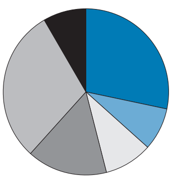
Following the decision of the AGM on 20 March 2001, a total of 1,500,000 warrants were issued to key persons in the Wärtsilä Group, entitling them to subscribe for the same number of Wärtsilä B shares. The share subscription period began on 1 April 2003 and ends on 31 March 2007. The share subscription price is EUR 26.72 and any extra dividends distributed after 25 May 2001 and before the subscription of shares will be deducted from this price. The share warrant scheme covers 78 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. Since the minimum operational profitability target of 4% set by the Board of Directors for the year 2003 was reached, the subscription of shares will begin as decided by the AGM on 1 April 2004 and end on 31 March 2008.

The share subscription price is EUR 15.92 and any extra dividends distributed after 17 May 2002 and before the subscription of shares will be deducted from this price. The share warrant scheme covers 39 individuals. The company had no other share-linked personnel incentive schemes in force during 2003.

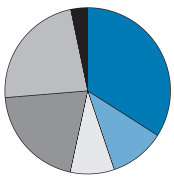
Conversions and subscriptions during 2003 raised Wärtsilä's share capital by altogether EUR 633,010. The number of A shares rose by 3,150 and the number of B shares by 177,710, making a total of 180,860 shares and 209,210 votes.

Ownership structure according to shares 31 Dec. 2003



- Private corporations 28.3 %
- Banks and insurance companies 8.3 %
- Public sector entities 9.4 %
- Non-profit organizations 15.7 %
- Households 29.9 %
- Outside Finland or nominee registered 8.4 %

Ownership structure according to votes 31 Dec. 2003



- Private corporations 34.0 %
- Banks and insurance companies 10.8 %
- Public sector entities 8.6 %
- Non-profit organizations 20.3 %
- Households 23.0 %
- 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 2,088,085 Wärtsilä Corporation shares, which represent 3.5% of the stock and 4.7% of the voting rights.

Under the 2002 warrants issue the CEO and his deputy hold altogether 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 altogether 126,000 shares, or 0.2% of the current total number of shares and 0.06% of the voting rights.

Board's proposals to the Annual General Meeting

The Board proposes to the Annual General Meeting on 15 March 2004 that a dividend of EUR 0,75 per share be distributed on the financial year ended 31 December 2003.

The Board proposes that the AGM authorize the Board to repurchase and dispose of the company's own A and B shares in proportion to the number of shares in each series provided that the total nominal value of the purchased shares shall not exceed five per cent (5%) of the company's total share capital and voting rights. The company's own shares may be purchased using only distributable funds.

The shares may be purchased only in public trading at the prevailing price. The purchased shares may be used as consideration in future mergers and acquisitions or industrial reorganizations or for the development of the capital structure of the company or as part of its management incentive system. The shares may be purchased or disposed of for other consideration than cash.

The Board is authorized to determine to whom and in what order the company's own shares shall be disposed of. The Board may decide on the disposal of the shares otherwise than in proportion to shareholders' pre-emptive subscription rights. The Board shall decide on the disposal price of the shares and on the other terms related to their disposal, and the shares may be disposed of for other consideration than cash. The authorization includes the right to set the principles used to determine the disposal price. The shares may be disposed of as consideration in future mergers and acquisitions or industrial reorganizations or for the development of the capital structure of the company or as part of its management incentive system.

This authorization is in force for one year from the resolution of the Annual General Meeting. Should it grant this authorization, the AGM at the same time revokes the Board's previous corresponding authorization.

Dilution effect of the convertible subordinated debentures and option schemes

	Number of shares	%	Share caital EUR	Votes %	Conversion/subscription terms Price, EUR	
Conv. subord. debentures	2,287,040	3.8	8,004,640	2.6	12.01	2 Jan-30 Nov. annually[3]
Share option program (2001)	1,500,000	2.5	5,250,000	0.8	26.72	1 Aprl. 2003-31 March 2007[1]
Share option program (2002)	800,000	1.3	2,800,000	0.4	15.92	1 Aprl. 2004-31 March 2008[1, 2]
Total	4,587,040	7.7	16,054,640	3.7		

Number of Wärtsilä share 64,237,012 and number of votes 205,850,617, if all conversion and subscription rights are exercised.

[1]Subscription period annually between 2 Jan.-30 Nov.

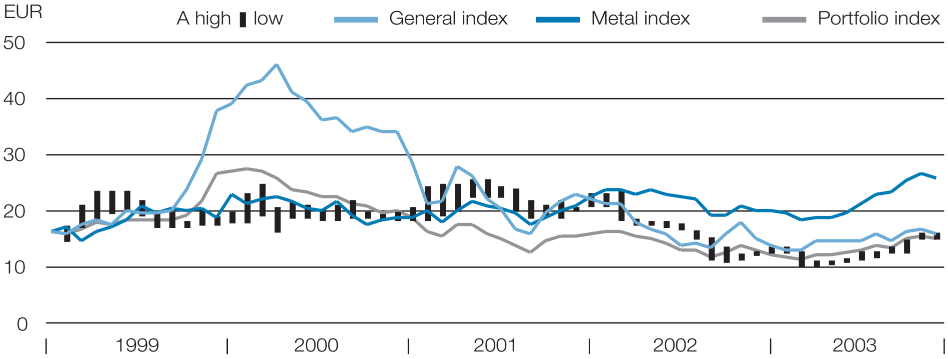
[2]Provided that the Company´s operating margin in 2003 is at least 4%.

[3]Repayment possible from May 2, 2004.

Change in share capital

	Serie A Shares	%	Votes	%	Serie B Shares	%	Votes	%	Total Shares	Votes
Shares/votes 31Dec. 2002	15,415,855	25.8	154,158,550	77.7	44,053,257	74.1	44,053,257	22.2	59,469,112	198,211,807
Debentures converted	3,150		31,500		28,910		28,910		32,060	60,410
Bonds with warrants subscribed	-		-		148,800		148,800		148,800	148,800
Total 31 Dec. 2003	15,419,005	25.8	154,190,050	77.7	44,230,967	74.1	44,230,967	22.2	59,649,972	198,421,017

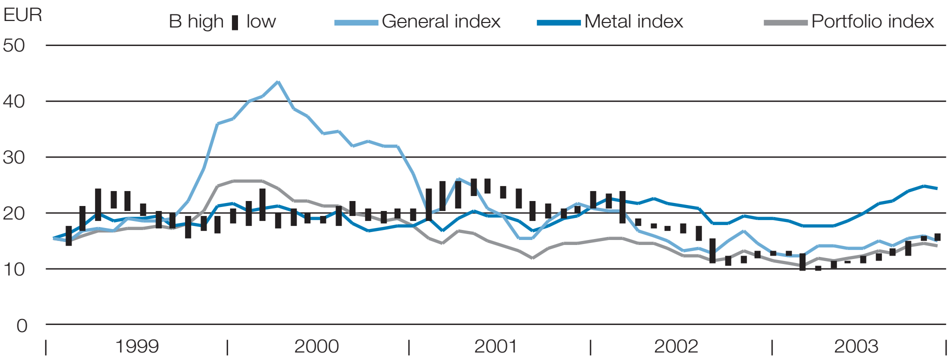
Series A quotations



The adjacent diagrams describe share price trends from 4 Jan. 1999-31 Dec. 2003.

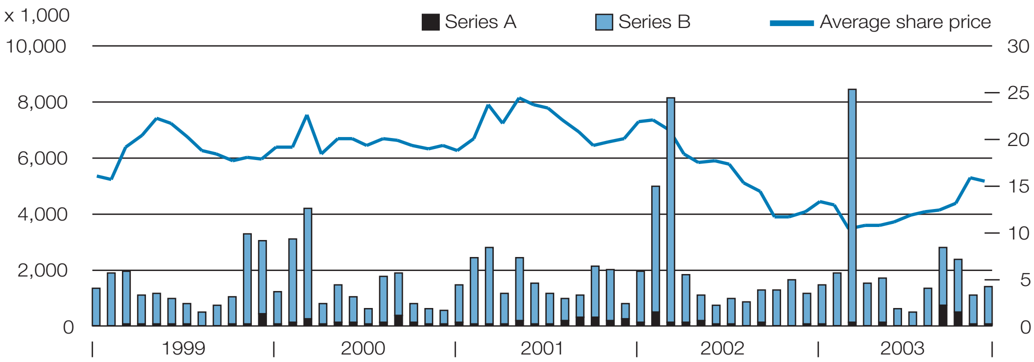
The HEX general index, portfolio index and metal index have been indexed to the Wärtsilä share price.

Series B quotations

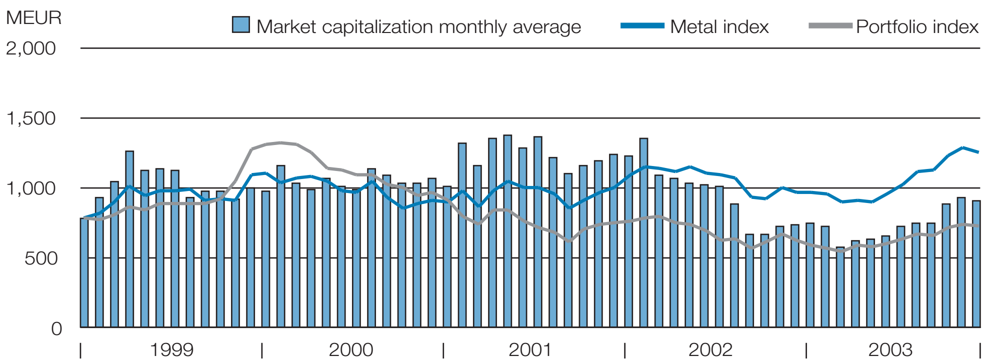


Wärtsilän´s company and share codes	
Helsinki Exchange	WRT
Series A	WRTAV
Series B	WRTBV
Reuters`RIC	
Series A	WRTAV.HE
Series B	WRTBV.HE
Bloomberg	
Series A	WRTAV FH
Series B	WRTBV.FH

Traded shares/month



Market capitalization



Approximately 1,2 million Wärtsilän shares, i.e. 1,9% of all Wärtsilä shares were traded on the SEAQ system in London during 2003.

Share information	Series A	Series B
Share lot	100 kpl	100 kpl
Shares/votes	10 kpl	1 kpl
Taxation 2003 EUR/share	10.61	10.64

The adjacent tables are based on the book-entry accounts at 31 December 2003.

Wärtsilä has 27,000 registered shareholders.

Major shareholders

		Number of shares x 1,000			
		Series A	Series B	% of votes	% of shares
1	Fiskars Corporation	4,104	7,370	24.4	19.2
2	Sampo Life Insurance Company Ltd.	1,665	1,129	9.0	4.7
3	Varma Mutual Pension Insurance Company	930	792	5.1	2.9
4	Svenska Litteratursällskapet	965	21	4.9	1.7
5	Agrofin Oy Ab	797	650	4.3	2.4
6	Brita Maria Renlund Foundation	228	330	1.3	0.9
7	Sigrid Juselius Foundation	249	125	1.3	0.6
8	Signe & Ane Gyllenbergs Foundation	230	100	1.2	0.5
9	The Social Insurance Institution	165	377	1.0	0.9
10	Technology Industries of Finland	186	218	1.0	0.7
11	Polaris Pension Fund	158	229	0.9	0.6
12	Magnus Ehrnrooths Foundation	138	-	0.7	0.2
13	Stiftelse för Åbo Akademi	131	38	0.7	0.3
14	Livränteanstalten Hereditas	104	310	0.7	0.7
15	Turret Oy Ab	124	63	0.7	0.3
	15 largest total	10,174	11,752	57.2	36.6

Division of shares

				Series A				Series B
Number of shares	Number of shareholders	%	Number of Shares	%	Number of Shareholders	%	Shares	%
1-100	5,896	54.4	255,779	1.7	7,075	28.1	455,580	1.0
101-1,000	4,237	39.2	1,405,441	9.1	14,549	57.6	5,690,424	12.9
1.001-10,000	634	5.8	1,544,278	10.0	3,309	13.1	8,791,193	19.9
10.001-100,000	57	0.5	1,757,803	11.4	272	1.1	7,343,772	16.6
100.001-1.000,000	16	0.1	4,686,438	30.4	36	0.1	9,148,104	20.7
1,000,001-	2	0.0	5,769,266	37.4	3	0.0	12,801,894	28.9
Total	10,842	100	15,419.005	100	25,244	100	44,230.967	100

Ownership structure

	Series A		Series B			Total
%	Shareholders	Shares	Shareholders	Shares	Votes	Shares
Private corporations	2.2	9.4	3.9	18.8	34.0	28.3
Banks and insurance companies	0.1	3.1	0.3	5.2	10.8	8.3
Public sector entities	0.2	2.1	0.3	7.3	8.6	9.4
Non-profit organizations	3.5	5.7	2.9	10.0	20.3	15.7
Households	92.8	5.2	91.6	24.7	23.0	29.9
Outside Finland and nominee-registered	1.2	0.3	1.0	8.1	3.3	8.4
Total	100	25.8	100	74.1	100	100

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

Formulas for calculating the financial ratios are given on page 4.

The Wärtsilä share on the Helsinki Exchange

			2003	2002	2001	2000	1999
Trading volume	MEUR						
Series A			21.0	24.5	39.8	27.4	17,3
Series B			275.9	457.7	392.6	332.9	310.0
Total			296.9	482.2	432.4	360.3	327.3
Number traded	1,000						
Series A			1,672	1,260	1,902	1,359	924
Series B			23,334	24,537	17,912	16,636	16,825
Total			25,007	25,797	19,814	17,995	17,749
Stock turnover	%						
Series A			10.8	8.2	13.2	9.8	6.6
Series B			52.8	55.7	43.1	41.3	41.8
Total			41.9	43.4	35.4	33.2	32.7
Average share price	EUR						
Series A			12.56	19.43	20.94	20.14	18.69
Series B			11.83	18.65	21.92	20.01	18.43
Trading low/high	EUR						
Series A		low	10.00	10.81	18.03	16.30	14.60
		high	16.30	23.50	25.50	25.00	23.75
Series B		low	9.20	10.45	18.25	17.00	13.71
		high	15.95	23.50	26.00	24.30	24.00
Share price at the year end	EUR						
Series A			15.25	12.78	20.60	19,50	18.20
Series B			15.20	12.02	20.80	19,70	18.50
Year-end market capitalization	MEUR		907	727	1,234	1,065	999

Key figures for Wärtsilä shares

		2003	2002	2001	2000	1999
Earnings per share (EPS)	EUR	-0.66	2.05	5.53	4.2	2.43
Book value of equity/share	EUR	13.03	15.56	17.55	14.59	13.09
Dividend/share	EUR	0.75[1]	1.75	4.00	2.65	2.85
Dividend/earnings	%	n/a	85.4	72.3	63.1	117.3
Dividend yield	%					
Series A		4.92[1]	13.69	19.42	13.61	15.66
Series B		4.93[1]	14.56	19.23	13.55	15.41
Price/earnings (P/E)						
Series A		n/a	6.2	3.7	4.6	7.5
Series B		n/a	5.9	3.8	4.7	7.6
Price to book value (P/BV)						
Series A		1.2	0.8	1.2	1.3	1.4
Series B		1.2	0.8	1.2	1.3	1.4
Adjusted number of shares	1,000					
end of financial year		59,650	59,469	59,454	54,202	54,200
on average		59,561	59,454	56,097	54,200	54,199

[1]*Proposal of the Board of Directors*

Board of Directors and Board of Management

Board of Directors

Mr Antti Lagerroos, LLLic. Chairman, born 1945. President & CEO and Member of the Board of Finnlines Plc. Member of the Board of Wärtsilä Corporation since 2002. Member of the Board of Fortum Oyj and Member of the Supervisory Board of The Mutual Pension Insurance Company Ilmarinen. Owns 6,500 Wärtsilä B shares.

Mr Göran J. Ehrnrooth, MSc (Econ.). Deputy Chairman, born 1934. Chairman of the Board of Fiskars Corporation. Member of the Board of Wärtsilä Corporation since 1992. Owns 2,815 Wärtsilä A shares and 4,149 Wärtsilä B shares.

Mr Risto Hautamäki, MSc (Eng.), born 1945. President & CEO of Tamfelt Corp. Member of the Board of Wärtsilä Corporation since 2003. Owns 1,600 Wärtsilä B shares.

Mr Jaakko Iloniemi, MSc (Pol. Sc.), born 1932. Member of the Board of Wärtsilä Corporation since 1994. Owns 1,597 Wärtsilä B shares.

Mr Bertel Langenskiöld, MSc (Eng.), born 1950. President & CEO of Metso Minerals, Inc. Member of the Board of Wärtsilä Corporation since 2002. Member of the Supervisory Board of Rautaruukki Corporation. Owns 1,481 Wärtsilä B shares.

Mr Paavo Pitkänen, MA, born 1942. Managing Director of Varma 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 1,597 Wärtsilä B shares.

Board of Management

Mr Ole Johansson, BSc (Econ.), born 1951. President and CEO. Worked for the company 1975-79 and rejoined in 1981. Owns 1,700 Wärtsilä A shares and 7,800 Wärtsilä B shares. 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 118 Wärtsilä A shares and 12,354 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. Joined the company in 1999. Owns 1,500 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 Tage Blomberg, BSc (Eng.), born 1949. Group Vice President, Service. Joined the company in 1975. Owns 1,350 Wärtsilä A shares. 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 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 Matti Kleimola, LicSc (Tech.), born 1946. Prof., Group Vice President, CTO. Employed by the company 1974-84 and rejoined in 2000. Owns 500 Wärtsilä A shares and 500 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 Raimo Lind, MSc (Econ.), born 1953. Group Vice President, CFO. Employed by the company 1976-89 and rejoined in 1998. Owns 530 Wärtsilä A shares and 1,030 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 Mikael Mäkinen, MSc (Eng.), Naval Architect, born 1956. Group Vice President, Ship Power. 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 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.

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Investor Relations Activities

In conjunction with the publication of its annual and interim results Wärtsilä holds conferences for investors, analysts and the media. 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 arranges Capital Markets Days for analysts and fund managers. In Finland the company meets investors at investor fairs and at local evening meetings arranged by the Finnish Foundation for Share Promotion. As a general rule the material presented at its conferences is also published on the company's website.

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

All releases are published in Finnish, Swedish and English except those to the trade press, which are produced only in English. The stock exchange releases and press releases are available on the internet immediately after they are published.

Investor Relations Manager Sophie Jolly is responsible for Wärtsilä's investors and analysts relations.

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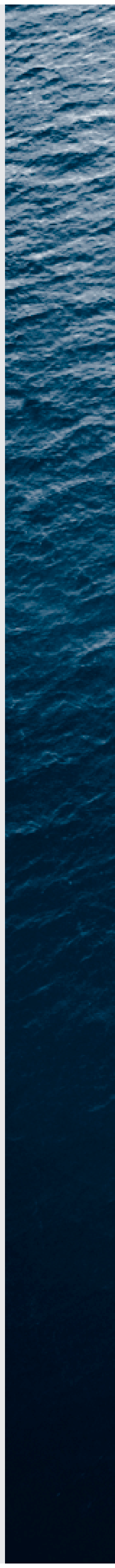

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