WÄRTSILÄ

Power
on Land and
at Sea

Interim Report

JANUARY-MARCH 2003

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- Wärtsilä Group's net sales totalled EUR 488.1 (580.9) million
- The order intake of the Power Divisions rose to EUR 590.4 (512.7) million
- The Group operating profit increased to EUR 5.0 (4.2) million
- The Power Divisions' operating profit improved to EUR 8.3 (1.4) mill.
- The Group profit before taxes decreased to EUR 0.3 (3.6) million
- Earnings per share were EUR –0.08 (-0.02)

NET SALES BY DIVISION

EUR mill.	1-3/2003	1-3/2002	Change	2002
Power Divisions	433.1	527.0	–17.8%	2,319.9
Imatra Steel	55.1	54.1	1.8%	200.4
Intragroup sales	–0.1	-0.1		–1.3
Total	488.1	580.9	–16.0%	2,519.0

OPERATING PROFIT/LOSS BY DIVISION

EUR mill.	1-3/2003	1-3/2002	Change	2002
Power Divisions	8.3	1.4		74.6
Imatra Steel	–3.4	2.7		3.2
Operational EBIT	5.0	4.2	19.4%	77.8
Capital gains (Assa Abloy)				111.1
Group operating profit	5.0	4.2	19.4%	188.9

Wärtsilä Group's first-quarter net sales decreased 16% due to the timing of projects by the Power Divisions. The consolidated operating profit was EUR 5.0 (4.2) million. The operating profit of the Power Divisions improved to EUR 8.3 (1.4) million. Imatra Steel's operating loss of EUR -3.4 million was burdened by a EUR 4.5 million one-time writedown of fixed assets. Net financial items amounted to EUR -4.7 (-0.6) million. The Group's profit before taxes was EUR 0.3 (3.6) million. Earnings per share were EUR -0.08 (-0.02).

Capital expenditure during the period totalled EUR 12.6 (12.3) million, which included the acquisition of the Dutch company Caltax Marine Diesel BV. Cash reserves at the end of March totalled EUR 128.5 (197.3) million. Net interest-bearing loan capital increased to EUR 534.5 (198.8) million due mainly to the John Crane-Lips acquisition in 2002.

The solvency ratio was 34.2% (36.3) and gearing was 0.70 (0.33).

POWER DIVISIONS

EUR mill.	1-3/2003	1-3/2002	Change	2002
Net sales	433.1	527.0	–17.8%	2,319.9
Operating profit	8.3	1.4		74.6
Operating margin	1.9%	0.3%		3.2%
Order intake	590.4	512.7	15.2%	1,882.8
Order book, end of period	1,368.5	1,508.8	–9.3%	1,206.6

The operating profit of the Power Divisions improved to EUR 8.3 (1.4) million, giving a corresponding operating margin of 1.9% (0.3). The intake of new orders was 15.2% higher than in the first quarter of 2002 owing to stronger demand in the Marine business.

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

MARINE

EUR mill.	1-3/2003	1-3/2002	Change	2002
Net sales	121.8	144.6	–15.7%	763.4
Order intake	166.0	82.1	102.3%	506.7
Order book, end of period	658.4	706.6	–6.8%	617.7

The Marine division's order intake doubled during the first three months of the year compared to the same period in 2002. Part of this growth was due to Wärtsilä Propulsion, which was not part of the Group during the comparable period but the intake of marine engine orders was also substantially higher than one year ago. The Marine order book is slightly lower than last year's but higher than at the end of 2002.

Demand remained lively for tankers and containerships, whereas the bulk carrier market slackened somewhat. Demand for offshore and special-purpose vessels is showing signs of livelier activity. The global shipyard order book remained constant during the first quarter.

Wärtsilä successfully completed the factory acceptance test of the first Wärtsilä 50DF (dual-fuel) engine in January. Four of these engines will be installed in an LNG (liquified natural gas) carrier under construction at the Chantiers de l'Atlantique shipyard in France. This will be the first LNG carrier in the world to be powered by electric propulsion and one of the few that, instead of the usual steam turbine plant, will have more efficient internal combustion engines (diesel engines).

In February Wärtsilä received the order for three Sulzer 9RT-flex60C low-speed engines. The engines are destined for vessels under construction for Safmarine, a subsidiary of the Danish company A.P. Møller. The engines will be built by Wärtsilä's Korean licensee manufacturer HSD Engine Co Ltd. Sulzer RT-flex engines are the first low-speed engines with common-rail technology.

POWER PLANTS

EUR mill.	1-3/2003	1-3/2002	Change	2002
Net sales	81.1	172.6	–53.0%	666.0
Order intake	163.1	168.1	–3.0%	427.9
Order intake, MW	328	366	–10.5%	832
of which gas power plants	33	63	–48.4%	293
Order book, end of period	337.8	468.4	–27.9%	255.2

Activity in the energy sector continues to be at a low level. A general feeling of caution resulting from the war in Iraq was reflected in the postponement of decisions and for this reason forecasting market trends is difficult.

The intake of orders for Wärtsilä power plants was at the same level as one year ago and satisfactory with respect to the previous quarters. The most important orders for oil-fired power plants were gained in India, Ethiopia, Antigua and Ecuador. The largest gas power plant orders were placed by customers in the USA, Hungary, Spain and France. Wärtsilä took a major step forward in its biopower business in Finland with an agreement, signed with Finnforest, for two modularized biopower plants for the company's sawmills. Biopower plant orders were also received in Sweden and Estonia.

SERVICE	1-3/2003	1-3/2002	Change	2002
Net sales, EUR mill.	216.9	199.2	8.9%	843.4
Personnel, end of period	5,822	5,255	10.8%	5,644
Long-term service agreements, MW	9,953	8,821	12.8%	9,756
O&M (operation & maintenance) agreements), MW	2,085	1,741	19.8%	2,056

WÄRTSILÄ GROUP UNAUDITED

INCOME STATEMENT			
EUR mill.	1-3/2003	1-3/2002	2002
Net sales	488.1	580.9	2,519.0
Other operating income	6.0	4.8	138.3
Expenses	–458.7	–559.5	–2,363.5
Depreciations and writedowns	–30.1	–22.5	–105.4
Share of profits in associated companies	–0.3	0.5	0.4
Operating profit	5.0	4.2	188.9
Financial income and expenses	–4.7	–0.6	–18.5
Profit before taxes	0.3	3.6	170.4
Income taxes[1]	–5.2	–4.5	–47.6
Minority interests	–0.1	–0.2	–1.0
Result of the financial period	–5.0	–1.1	121.9

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

BALANCE SHEET			
EUR mill.	31.3.2003	31.3.2002	31.12.2002
Fixed assets	993.8	712.0	1,018.7
Current assets			
Inventories	666.0	667.4	628.1
Receivables	766.2	861.8	852.3
Cash and bank balances	128.5	197.3	185.8
Total	2,554.6	2,438.5	2,685.0
Share capital	208.1	208.1	208.1
Other shareholder's equity	634.6	624.9	744.9
Minority interests	6.3	6.1	6.5
Provisions	141.3	166.6	154.0
Long-term liabilities	298.6	310.4	322.7
Current liabilities	1,265.7	1,122.4	1,248.8
Total	2,554.6	2,438.5	2,685.0

GROSS CAPITAL EXPENDITURE			
EUR mill.	1-3/2003	1-3/2002	2002
Investments in securities and acquisitions			
Power Divisions	0.8	0.4	348.6
Imatra Steel			0.0
	0.8	0.4	348.6
Other investments			
Power Divisions	9.6	9.4	58.7
Imatra Steel	2.2	2.6	16.0
	11.8	12.0	74.7
Group	12.6	12.3	423.3

INTEREST-BEARING LOAN CAPITAL			
EUR mill.	31.3.2003	31.3.2002	31.12.2002
Long-term liabilities	254.4	272.3	281.2
Short-term liabilities	417.4	162.3	343.1
Convertible subordinated debentures	27.9	28.1	27.9
Loan receivables	–36.6	–66.5	–35.7
Cash and bank balances	–128.5	–197.3	–185.8
Net	534.5	198.8	430.6

FINANCIAL RATIOS	1-3/2003	1-3/2002	2002
Earnings/share, EUR	–0.08	–0.02	2.05
Equity/per share, EUR	13.70	13.54	15.56
Solvency ratio 1, %	34.2	36.3	36.9
Solvency ratio 2[1], %	35.4	37.6	38.0
Gearing 1	0.70	0.33	0.50
Gearing 2[1]	0.64	0.28	0.46

[1]In solvency ratio 2 and gearing 2 shareholders' equity includes the convertible subordinated debentures EUR 27.9 million (28.1).

FINANCIAL ANALYSIS			
EUR mill.	1-3/2003	1-3/2002	2002
Cash flow from operating activities:			
Operating profit/loss	5.0	4.2	188.9
Depreciation and write-downs	30.1	22.5	105.4
Selling profit and loss of fixed assets and other adjustments	0.3	–1.9	–113.0
Changes in working capital	–16.5	–22.2	-69.0
Cash flow from operating activities before financial items and taxes	18.9	2.6	112.3
Net financial expenses and paid income tax	–17.4	–8.1	–56.9
Cash flow from operating activities (A)	1.6	–5.5	55.4
Cash flow from investing activities:			
Net investments in tangible and intangible assets	–11.2	–9.1	–56.0
Investments in shares and acquisitions	–0.6	–0.4	–354.7
Proceeds from sale of shares after taxes		1.1	119.2
Cashflow from other investing activities	0.5	0.5	5.2
Cash flow from investing activities (B)	–11.3	–7.9	–286.5
Cash flow from financing activities:			
Issuance of share capital and premium	0.1		
New long-term loans	52.4	134.6	472.0
Amortisation and other changes of long-term loans	–86.9	–74.0	–276.1
Paid dividends	–103.3	–238.3	–238.6
Changes in short term loans and other financing activities	90.1	204.0	275.1
Cash flow from financing activities (C)	–47.6	26.3	232.3
Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-)	–57.3	12.8	1.3
Liquid funds at beginning of period	185.8	184.6	184.6
Liquid funds at end of period	128.5	197.3	185.8

PERSONNEL			
On average	1-3/2003	1-3/2002	2002
Power Divisions	10,923	9,651	11,024
Imatra Steel	1,382	1,386	1,393
Group	12,305	11,037	12,417
Personnel, end of period	12,272	11,115	12,459

CONTINGENT LIABILITIES			
EUR mill.	31.3.2003	31.3.2002	31.12.2002
Mortgages	65.1	64.7	64.7
Chattel mortgages	46.8	39.6	41.9
Total	111.9	104.3	106.6
Guarantees and contingent liabilities			
on behalf of the company	272.0	318.1	243.9
on behalf of assoc. companies	1.1	1.1	1.1
Leasing obligations	39.3	40.0	45.7
Total	312.4	359.2	290.7

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS		
EUR mill.	Total	of which closed
Interest rate swaps	200.0	160.0
Foreign exchange forward contracts	962.5	72.5
Currency options, purchased	18.9	

If all above instruments had been sold at market prices at the end of the period, the effect would have been EUR 27.8 million.

Net sales of the Service division rose 8.9% to EUR 216.9 million. The volume of long-term service and operation agreements now covers over 12,000 MW of Wärtsilä's total active installed engine base (128,000 MW). The volume of O&M agreements increased 19.8% compared to the first quarter of last year and prospects, especially in India and Africa, are good.

A further company was added to the Ciserv group with Wärtsilä's acquisition of a Dutch marine engine repair and service company subsequently renamed Ciserv Netherlands BV. This company will increase Wärtsilä's capacity in Northern Europe to provide repair and reconditioning services for 2-stroke engines and components.

ENGINE MANUFACTURING AND TECHNOLOGY

The thrust of Wärtsilä's product development activities is on environmentally sound combustion and engine technology. Wärtsilä and MAN B&W Diesel began a wide-ranging research project under the auspices of the EU. The project focuses on reducing engine exhaust emissions. Orders for the first Sulzer RT-flex96C engines were received from Korea and Japan.

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

IMATRA STEEL EUR mill.	1-3/2003	1-3/2002	Change	2002
Net sales	55.1	54.1	1.8%	200.4
Operating profit/loss	–3.4	2.7		3.2
% of net sales	–6.1%	5.0%		1.6%

Imatra Steel's net sales grew 1.8% during period due to an increase in its component business. No significant changes were observed in the special steels market.

Imatra Steel reported a first-quarter operating loss of EUR -3.4 (+2.7) million. The result was burdened by a EUR 4.5 million one-time writedown of fixed assets and also by a steep rise in raw materials and energy prices.

HOLDING IN ASSA ABLOY

Wärtsilä's holding in Assa Abloy is 7.6%. Its market value at the close of the period was EUR 208.8 million and its book value in the consolidated balance sheet was EUR 67.4 million.

GENERAL MEETING

Wärtsilä's Annual General Meeting, held on 12 March 2003, decided to pay a normal dividend of EUR 0.25 per share and an extra dividend of EUR 1.50 per share. The terms of the convertible subordinated debentures and the bond with warrants were changed corresponding to the amount of the extra dividend. The meeting confirmed the number of members of the Board of Directors to be six. Göran J. Ehrnrooth, Risto Hautamäki, Jaakko Iloniemi, Antti Lagerroos, Bertel Langenskiöld and Paavo Pitkänen were elected to the Board. Authorized Public Accountant KPMG Wideri Oy Ab were appointed to be the company's auditors. The Meeting also renewed the Board's authorizations to purchase and dispose of the company's own shares.

The Board elected Antti Lagerroos as its Chairman and Göran J. Ehrnrooth as the Deputy Chairman. The Board also appointed the members of the Audit Committee: Antti Lagerroos, Göran J. Ehrnrooth and Paavo Pitkänen.

SHARES AND SHAREHOLDERS	1-3/2003	1-3/2002	2002
Trading in Helsinki, shares	19.8%	25.9%	43.4%
Trading in Helsinki, votes	6.6%	11.2%	19.9%
Trading on the SEAQ, shares	0.4%	8.1%	11.1%
Foreign ownership, end of period	8.2%	9.8%	8.8%

Shares at 31 March 2003	A share	B share	Total
Number of shares	15,415,855	44,053,257	59,469,112
Number of votes	154,158,550	44,053,257	198,211,807

THE WÄRTSILÄ SHARE ON THE HELSINKI EXCHANGES 1 January-31 March 2003	High EUR	Low	Average[1]	Trading volume Number
A Share	13.00	10.00	11.25	150,052
B Share	12.30	9.35	11.17	11,596,017

[1] Volume weighted average price

MARKET CONDITIONS

Investment activity in the tanker, bulk carrier and containership markets has focused especially on large vessels and shipyards in Asia are starting to reach full capacity. The outlook in the shipbuilding industry this year is positive due to a recovery in freight prices, the availability of venture capital, and regulations requiring double hulls in new tankers.

The number of power plant projects in progress is at a satisfactory level despite the global uncertainty and several fairly large orders are expected this year. Wärtsilä estimates that its full year intake of power plant orders will be higher than in 2002. Postponement of decisions, however, remains a continuing feature of the power business. The intake of orders for biopower plants is expected to continue flowing favourably.

Acquisitions by Service division are aimed at broadening and deepening the company's service capabilities as this will offer Wärtsilä good opportunities to increase its share of the market for 2-stroke engine service. Business operations will focus on levering the synergies offered by the Ciserv group and increasing sales of service contracts and service products.

PROSPECTS

The Power Divisions' order book at the close of the reporting period was at a lower level than on the same date last year, although an improvement compared to the end of 2002.

Net sales of the Power Divisions are expected to grow slightly, with the strongest growth evident in the Service business. Streamlining measures will be continued. The profitability of the Power Divisions is expected to improve slightly from 2002.

The market outlook in Imatra Steel's business remains unstable and there is still need for raising steel and component prices. Imatra Steel's net sales are forecast to increase and its operational EBIT to improve as a result of streamlining measures.

28 April 2003

Wärtsilä Corporation
Board of Directors