WÄRTSILÄ

Interim Report

January - June 2002

WÄRTSILÄ POWER DIVISIONS SHOW CLEAR IMPROVEMENT IN PERFORMANCE IN SECOND QUARTER

- Wärtsilä Group's net sales EUR 1,282.3 (1,073.8) million
- Operating profit EUR 148.8 (560.2) million
- Profit before extraordinary items EUR 147.3 (559.4) million
- Power Divisions' operating profit EUR 32.1 (3.6) million
- Order intake at unsatisfactory level

NET SALES BY DIVISION

MEUR	4-6/2002	4-6/2001	Change	
Power Divisions	649.5	530.0	22.5%	
Imatra Steel	52.6	49.2	6.9%	
Intragroup sales	-0.7	-2.8		
Total	701.4	576.4	21.7%	
MEUR	1-6/2002	1-6/2001	Change	2001
Power Divisions	1,176.5	972.8	20.9%	2,174.3
Imatra Steel	106.7	104.9	1.7%	186.4
Intragroup sales	-0.9	-3.9		-2.0
Total	1,282.3	1,073.8	19.4%	2,358.7

OPERATING PROFIT BY DIVISION

MEUR	4-6/2002	4-6/2001	Change	
Power Divisions	30.7	10.9	181.7%	
Imatra Steel	2.9	2.9	0.0%	
Operational EBIT	33.6	13.8		
Non-recurring items				
Capital gains	111.1	550.4		
Group	144.7	564.1		
MEUR	1-6/2002	1-6/2001	Change	2001
Power Divisions	32.1	33.6	-4.5%	89.4
Imatra Steel	5.6	6.2	-9.7%	6.4
Operational EBIT	37.7	39.8	-5.3%	95.8
Non-recurring items				
Cost provision		-30.0		-122.4
Capital gains	111.1	550.4[1]		550.4[1]
Group	148.8	560.2		523.9

[1] Also includes capital gain from Sanitec shares.

The Group's net sales increased 19.4% to EUR 1,282.3 (1,073.8) million in the first six months of the year. The operating profit was EUR 148.8 (560.2) million, which included a capital gain of EUR 111.1 (550.4) million on the sale of Assa Abloy shares. Operational EBIT totalled EUR 37.7 (39.8) million. Net financial items were EUR -1.5 (-0.8) million. The profit before extraordinary items amounted to EUR 147.3 (559.4) million. Earnings per share (EPS) were EUR 1.58 (6.43).

Capital expenditure for the period totalled EUR 363.1 (32.9) million. This comprised EUR 330.6 (8.2) million in investments in securities and EUR 32.5 (24.7) million in production investments.

The largest investment during the period was the acquisition, for EUR 323.7 million, of the propulsion system supplier John Crane-Lips in April. This company has been consolidated since 1 April 2002. Metalock Singapore Ltd's marine repair operations, which will be consolidated from the third quarter, were acquired for EUR 4.9 million. In April Wärtsilä made a public offer to the minority shareholders of Wärtsilä India Ltd to acquire the entire share capital of this company. A total of 3.5% of the shares were acquired for approximately EUR 1.6 million during the offer period, raising Wärtsilä's holding to 88.3%.

Depreciation amounted to EUR 49.9 (45.1) million, and included EUR 3.6 million in goodwill amortization on the John Crane-Lips acquisition.

During the reporting period Wärtsilä sold Assa Abloy shares for altogether 1,260 million Swedish krona (EUR 138 million).

Cash reserves at the close of the period totalled EUR 212.5 (421.0) million. Interest-bearing loan capital amounted to EUR 373.7 (-166.8) million. The solvency ratio was 35.1% (41.3) and gearing was 0.47 (-0.08).

POWER DIVISIONS

MEUR	4-6/2002	4-6/2001	Change	
Net sales	649.5	530.0	22.5%	
Operating profit	30.7	10.9	181.7%	
% of net sales	4.7%	2.1%		
Order intake	342.3	549.6	-37.7%	
MEUR	1-6/2002	1-6/2001	Change	2001
Net sales	1,176.5	972.8	20.9%	2,174.3
Operational EBIT	32.1	33.6	-4.5%	89.4
Operating profit	32.1	3.6		-33.0
% of net sales	2.7%	0.4%		-1.5%
Order intake	855.0	1,102.2	-22.4%	2,040.4
Order book, end of period	1,372.8	1,803.4	-23.9%	1,516.5

The Power Divisions reported an almost three-fold increase in operating profit in the second quarter compared to the comparable period of last year, EUR 30.7 (10.9) million, which raised the corresponding operating margin to 4.7% (2.1). The order intake has slowed down during the year. Maintaining capacity utilisation and achieving the long-term profitability target of 7-8% next year will require a pick-up in business activity in the latter half of the year.

The six-month operating profit was EUR 32.1 (3.6) million and the corresponding operating margin was 2.7% (0.4). The operating profit includes an approx. EUR 13 million project activity provision entered in the first-quarter accounts.

Further measures are being taken to raise efficiency. Wärtsilä Switzerland has shifted focus to technology, licensing and servicing of Sulzer low-speed engines and agreement has been reached with this company's personnel on the reduction of approx. 130 employees. These reductions have begun and will be completed during 2003.

Wärtsilä reached agreement in March on the termination of engine manufacturing, engineering and related activities in Zwolle, the Netherlands. Transfer of these activities to Trieste, Italy, has started. A service and sales organization remains in Zwolle. Manufacture of engine components will be handed over to an outside supplier. Approximately 320 employees will be made redundant as a result of the reorganization. By the close of the period the number of employees had decreased by about 100.

The EUR 90 million cost provision entered in the fourth-quarter accounts last year is expected to be sufficient to cover the costs of these measures.

Marine

MEUR	4-6/2002	4-6/2001	Change	
Net sales	212.1	160.1	32.5%	
Order intake	103.7	123.2	-15.8%	
MEUR	1-6/2002	1-6/2001	Change	2001
Net sales	356.7	272.5	30.9%	595.1
Order intake	185.8	289.0	-35.7%	476.8
Order book, end of period	739.9	925.3	-20.0%	769.6

The global shipyard order intake increased slightly during the second quarter from the record low level at the beginning of the year. The growth was due to new orders for tankers and bulk carriers. Although containership orders increased somewhat compared to the first quarter, the order book of these vessels has decreased. Similarly, the order book for cruise ships continues to decrease rapidly and only a few significant orders have been placed this year.

Wärtsilä's acquisition of John Crane-Lips, the world's leading supplier of marine propulsion systems, was completed at the beginning of April. The company was renamed Wärtsilä Propulsion.

Wärtsilä Propulsion, consolidated within the Wärtsilä Marine division since 1 April, contributed EUR 58.3 million of Marine's total net sales, had an order book of EUR 195,5 million and reported a clearly positive operating profit.

Power Plants

MEUR	4-6/2002	4-6/2001	Change	
Net sales	217.9	165.9	31.3%	
Order intake	44.5	215.0	-79.3%	
Order intake, MW	107	480	-77.6%	
incl. gas power plants, MW	32	228	-85.9%	
MEUR	1-6/2002	1-6/2001	Change	2001
Net sales	390.5	302.1	29.3%	760.6
Order intake	212.5	401.2	-47.0%	658.6
Order intake, MW	475	925	-48.7%	1,431
incl. gas power plants, MW	96	355	-73.0%	422
Order book, end of period	312.1	625.2	-50.1%	467.7

General uncertainty in the global economy coupled with unsettled issues related to electricity market deregulation and the future structure of the electricity markets in several countries, have slowed the pace of investments in the energy sector, resulting in the postponement of both large and medium-sized energy projects. Small projects are making progress and being implemented in different parts of the world.

The intake of new orders for both heavy fuel oil (HFO) and gas power plants became substantially slower in the second quarter. The order book is at an unsatisfactory level.

The largest gas power plant orders were placed in the USA, Pakistan and Colombia. The largest orders for HFO power plants were gained in Turkey and India. Wärtsilä also received orders for biopower plants in Finland and Sweden.

Service

	4-6/2002	4-6/2001	Change	
Net sales, MEUR	207.6	195.9	6.0%	
	1-6/2002	1-6/2001	Change	2001
Net sales, MEUR	406.8	377.8	7.7%	790.4
Personnel, end of period	5,314	4,739	12.1%	5,026
Long-term service agreements, MW	9,321	7,948	17.3%	8,262
O&M agreements, MW (operations & maintenance)	1,824	1,509	20.9%	1,698

Net sales of the Service division continued to rise, but remained below the long-term growth target. Second-quarter growth was 7.7%. The volume of long-term service and operation agreements increased 17.3% to 9,321 MW. The volume of operation and maintenance (O&M) agreements now covers 1,824 MW or more than 90 power plants around the world, representing growth of 20.9%. The largest market for O&M services is India. The volume of Wärtsilä's O&M agreements now covers more than 11,000 MW (9,457) or approximately 9% of Wärtsilä's active engine base.

The acquisition of Metalock Singapore Ltd's marine engine repair and reconditioning business was completed in May and the acquired operation was renamed Ciserv Singapore Pte Ltd. The Ciserv companies, Ciserv AB in Sweden and Ciserv Singapore, are part of the Service division's expansion strategy. Ciserv, which specializes in the repair and reconditioning of marine engines and in the service and repair of marine equipment, offers a full portfolio of reconditioning services covering a wide range of engine brands.

Manufacturing and technology

The Group's internal divisions Technology and Manufacturing were merged at the beginning of April, forming the Engine Division.

The termination of engine manufacturing in Zwolle, the Netherlands, and the transfer of operations to Trieste in Italy proceeded according to plan.

Product development concentrated on continuous improvements to existing products. New engine types incorporating environmental protection technology were introduced on the market. Wärtsilä is also currently evaluating various product concepts based on new technologies.

INCOME STATEMENT

MEUR	1-6/2002	1-6/2001	2001
Net sales	1,282.3	1,073.8	2,358.7
Other operating income	115.7	561.6	571.9
Expenses	-1,199.8	-1,030.5	-2,280.9
Depreciations and writedowns	-49.9	-45.1	-126.0
Share of profits			
in associated companies	0.5	0.3	0.1
Operating profit	148.8	560.2	523.9
Fin. income and expenses	-1.5	-0.8	-15.2
Profit before extr´y items	147.3	559.4	508.7
Extraordinary items		-6.0	-6.0
Profit before taxes	147.3	553.4	502.7
Income taxes[1]	-53.1	-208.1	-194.7
Minority interests	-0.2	-1.3	-2.2
Result for the financial period	94.0	344.0	305.7

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

BALANCE SHEET

MEUR	30.6.2002	30.6.2001	31.12.2001
Fixed assets	1,005.4	762.0	721.4
Current assets			
Inventories	710.0	708.0	668.3
Receivables	891.5	797.8	830.7
Cash and bank balances	212.5	421.0	184.6
Total	2,819.4	2,688.8	2,405.0
Share capital	208.1	189.7	208.1
Other shareholder´s equity	720.4	918.2	863.5
Minority interest	6.7	15.4	6.4
Provisions	173.3	136.0	183.0
Long-term liabilities	496.2	220.1	183.6
Current liabilities	1,214.7	1,209.4	960.4
Total	2,819.4	2,688.8	2,405.0

GROSS CAPITAL EXPENDITURE

MEUR	1-6/2002	1-6/2001	2001
Investments in securities			
and acquisitions			
Power Divisions	330.6	8.1	21.7
Imatra Steel		0.1	7.8
	330.6	8.2	29.6
Other investments			
Power Divisions	25.7	22.0	56.8
Imatra Steel	6.8	2.7	10.7
	32.5	24.7	67.5
Group	363.1	32.9	97.1

INTEREST BEARING LOAN CAPITAL

MEUR	30.6.2002	30.6.2001	31.12.2001
Long-term liabilities	456.2	179.0	148.9
Short-term liabilities	156.5	44.8	19.3
Preferred capital notes	27.9	117.2	28.1
Loan receivables	-54.4	-86.6	-68.3
Cash and bank balances	-212.5	-421.0	-184.6
Net	373.7	-166.8	-56.5

FINANCIAL ANALYSIS

MEUR	1-6/2002	1-6/2001	2001
Cash from operating activities	28.3	-4.7	27.6
Cash used in investing activities	-212.9	756.0	504.8[1]
Cash used in financing activities	215.3	-449.1	-466.8
Change in liquid funds	30.7	-302.1	65.7

[1] Includes taxes from capital gain on Assa Abloy and Sanitec shares.

FINANCIAL RATIOS

	1-6/2002	1-6/2001	2001
Earnings per share, EUR	1.58	6.43	5.53
Equity per share, EUR	15.15	18.28	18.60
Solvency ratio 1, %	35.1	41.3	47.3
Solvency ratio 2[1], %	36.2	46.1	48.6
Gearing 1	0.47	-0.08	0.01
Gearing 2[1]	0.43	-0.18	-0.02

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

PERSONNEL

On average	1-6/2002	1-6/2001	2001
Power Divisions	10,867	9,313	9,562
Imatra Steel	1,396	1,264	1,284
Group	12,263	10,577	10,846
Personnel at the end of period	12,362	10,681	11,122

CONTINGENT LIABILITIES

MEUR	30.6.2002	30.6.2001	31.12.2001
Mortgages	66.7	83.1	69.9
Chattel mortgages	44.7	30.3	41.2
Total	111.4	113.4	111.1
Guarantees and contingent liabilities			
On behalf of the company	437.2	430.4	403.8
On behalf of assoc. companies	1.1	0.8	1.1
On behalf of others	2.1	2.1	2.1
Leasing obligations	40.9	42.7	41.9
Total	481.3	476.0	448.9

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

MEUR	Total	of which closed
Interest rate swaps	160.0	160.0
Purchased currency options	20.0	
Foreign exchange forward contracts	1,015.2	160.0

If all the above instruments had been sold at market prices at the end of the period, the effect would have been EUR 32.4 million.

IMATRA STEEL				
MEUR	4-6/2002	4-6/2001	Change	
Net sales	52.6	49.2	6.9%	
Operating profit	2.9	2.9	0.0%	
% of net sales	5.5%	5.9%		
MEUR	1-6/2002	1-6/2001	Change	2001
Net sales	106.7	104.9	1.7%	186.4
Operating profit	5.6	6.2	-9.7%	6.4
% of net sales	5.2%	5.9%		3.4%

Imatra Steel's net sales increased in the first half of the year following an expansion of its forging operations. Growth was 1.7% on the same period last year. The market for special engineering steels remained weak overall. Imatra Steel's operating profit was 5.2% (5.9) of net sales. Net sales of the Scottish company Scottish Stampings, acquired last year, totalled EUR 9.8 million.

Installation work under the first stage of the investment programme to modernize the Imatra Steel Works' base metallurgical processes is in progress during July and August. The renewed heavy rolling mill will be brought into operation in August.

ASSA ABLOY

Wärtsilä sold 10 million Assa Abloy shares for 1,260 million Swedish krona (EUR 138 million) at the end of May, recording a capital gain of approximately EUR 111 million on the transaction. Wärtsilä will pay roughly EUR 35 million in tax on the sale.

Assa Abloy announced a privileged issue of 10 million new shares. Wärtsilä's holding, taking into account the sale and new issue, decreased to 7.6% of the share capital and to 22.9% of the votes.

The market capitalization of this holding at the close of the period totalled EUR 396 million. The closing price of Assa Abloy's B-share on June 30, 2002, was SEK 129,50. The book value of the holding in Wärtsilä's consolidated balance sheet was EUR 67 million.

ANNUAL GENERAL MEETING

The Annual General Meeting on 12 March 2002 approved the distribution of a normal dividend of EUR 0.50 per share and an extra dividend of EUR 3.50 per share. The terms of the convertible subordinated debentures and the bond with warrants were changed corresponding to the amount of extra dividend. The number of members of the Board of Directors was reduced by one when Mr Christoffer Taxell announced that he would not stand for re-election. In other respects the composition of the Board remained unchanged. The meeting also approved a new share option scheme for key employees in the Group. Implementation of the scheme is conditional upon the company's achieving the minimum profitability targets set by the Board of Directors for 2003. Altogether 37 employees subscribed for options under the scheme. The Board's authorizations to repurchase and dispose of the company's own shares were renewed.

SHARES AND SHAREHOLDERS

Based on agreements between If Skadeförsäkring Holding AB and Sampo Oyj, If Skadeförsäkring Holding group's holding of the Wärtsilä voting rights rose above 5% of the total votes and Sampo Oyj's holding decreased to below 5% of the total shares and votes. This change took place on 2 January 2002.

SHARES	1-6/2002	1-6/2001	2001
Trading in Helsinki, shares	25.3%	21.6%	35.4%
Trading in Helsinki, votes	10.9%	9.6%	19.9%
Trading on the SEAQ, shares	9.8%	7.0%	10.5%
Foreign ownership, end of period	11.2%	13.2%	10.5%

Shares on 30 June 2002	A share	B share	Total
No. of shares	15,414,429	44,039,431	59,453,860
No. of votes	154,144,290	44,039,431	198,183,721

PROSPECTS FOR 2002

The unfavourable trend in global marine orders during the first half of the year has affected Wärtsilä Marine's order intake and order book. Comparable net sales has increased owing to deliveries under the strong order book of recent years. The increase in net sales this year is also due to the John Crane-Lips acquisition. Order activity is expected to pick up in the second half of the year although the general uncertainty of the markets makes it difficult to forecast the order intake.

Estimating the intake of new power plant orders to the end of the year is difficult owing to the global economic uncertainty. Wärtsilä is involved in several large HFO power plant projects, final decisions on which are expected at the end of the year. The volume of gas power plant orders is not expected to reach last year's level. Demand for bio power plants is growing in line with expectations.

The Group will continue to develop the Service business and its growth is expected to increase.

The order intake of the Power Divisions is at an unsatisfactory level considering next year. However, net sales for the full year 2002 is expected to grow based on the current order book. The operational profitability is still expected to remain at the same level as in 2001. The benefits of the restructuring measures decided last year and being implemented this year will be felt in 2003.

The market outlook for Imatra Steel continues to be unsettled and any change in demand will not be evident until the autumn. Net sales is forecast to grow as a result of growth in the forging business and the result is expected to remain unchanged.

31 July 2002

Wärtsilä Corporation
Board of Directors

Picture:
The acquisition of Metalock Singapore Ltd’s marine engine repair and reconditioning business was completed in May and the acquired operation was renamed Ciserv Singapore Pte Ltd. The Ciserv companies, Ciserv AB in Sweden and Ciserv Singapore, are part of the Service division’s expansion strategy.

Wärtsilä Corporation

John Stenbergin ranta 2
P.O. Box 196
00531 HELSINKI
Tel: +358 10 709 0000
Fax: +358 10 709 5700
www.wartsila.com