Interim Report

JANUARY-SEPTEMBER 2003
INTERIM REPORT JANUARY – SEPTEMBER 2003

POWER DIVISIONS’ ORDER INTAKE IMPROVED

- Order intake of Power Divisions increased
- Clear improvement in operating profit during July–September
- Consultations on personnel reductions started in France
- Streamlining of operations continues

WÄRTSILÄ GROUP IN BRIEF

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>608.7</td>
<td>510.3</td>
<td>1,635.4</td>
<td>1,792.6</td>
<td>1,792.6</td>
<td>2,519.0</td>
</tr>
<tr>
<td>Operational EBIT1</td>
<td>32.8</td>
<td>22.7</td>
<td>67.3</td>
<td>70.0</td>
<td>100.6</td>
<td></td>
</tr>
<tr>
<td>Operational EBIT</td>
<td>26.1</td>
<td>16.1</td>
<td>47.2</td>
<td>53.9</td>
<td>77.8</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>26.1</td>
<td>16.1</td>
<td>47.2</td>
<td>165.0</td>
<td>188.9</td>
<td></td>
</tr>
<tr>
<td>Profit before taxes</td>
<td>19.3</td>
<td>10.5</td>
<td>34.9</td>
<td>157.9</td>
<td>170.4</td>
<td></td>
</tr>
<tr>
<td>Earnings per share, EUR</td>
<td>0.27</td>
<td>0.05</td>
<td>0.40</td>
<td>1.63</td>
<td>2.05</td>
<td></td>
</tr>
</tbody>
</table>

1 EBITA is the operating profit before amortization of goodwill on consolidation

The first phase of Wärtsilä's business analysis, the aim of which is to significantly improve the company’s profitability was completed in early September. It was decided that the Group’s focus areas will be ship power systems and service. Manufacture of ship engines and propellers will be started in the growing Chinese shipbuilding market. Wärtsilä’s Power Plants division will concentrate on competitive products.

At the Mulhouse facility in France, measures to cease manufacture of the Wärtsilä 200 and 220SG engines and consultations on personnel reductions have been started. Streamlining of the Group’s power plant business is under way. In view of the above-mentioned changes there will be a reduction of between 400 and 500 employees worldwide.

The business analysis process will continue and is expected to result in further reductions in capacity. A EUR 75-150 million restructuring provision will be entered in the fourth-quarter accounts. The Power Divisions will achieve its 7-8% operating margin target by the end of 2005.

Wärtsilä signed an agreement in June under which the assets and operations of its Billnäs Spring Works were sold to Styria Group on 31 July 2003. The impact of this divestment after the writedown entered in the first quarter is profit-neutral.

Wärtsilä sold its holding in Polar in October. This generated a capital gain of EUR 111.1 million which will be entered in the first quarter is profit-neutral.

Wärtsilä’s consolidated nine-month net sales decreased 8.8% owing to the low order intake during 2002. The operating profit was EUR 47.2 (165.0) million. Last year’s figure included a EUR 111.1 million capital gain on the sale of Assa Abloy shares.

The nine-month operating profit of the Power Divisions was EUR 49.2 (50.2) million. The July–September operating profit was a distinct improvement on last year’s figure and totalled EUR 26.9 (18.0) million. Imatra Steel’s result of operations, an operating loss of EUR -1.9 million, was burdened by a EUR 4.5 million writedown on fixed assets during the first quarter.

Net financial items in the first nine months of the year amounted to EUR -12.3 (-7.1) million. The Group’s profit before taxes was EUR 34.9 (157.9) million. Earnings per share (EPS) were EUR 0.40 (1.63). The order intake of the Power Divisions increased 22.5% to EUR 1,658.1 (1,353.8) million.

The Group’s cash flow from operating activities was strong EUR 62.6 (-21.1) million. Cash reserves at the end of the period totalled EUR 109.1 (145.3) million. Net interest-bearing loan capital was EUR 464.6 (469.4) million. The solvency ratio was 37.3% (36.0) and gearing was 0.58 (0.58).

Capital expenditure between January and September, amounting to EUR 41.7 (381.4) million, included the acquisition of the Dutch company Caltax Marine Diesel BV during the first quarter. Depreciation was EUR 81.6 (76.2) million, which included EUR 20.1 (16.1) million in amortization of goodwill on consolidation.

Wärtsilä Corporation
was decided to start consultations aimed at ceasing engine manufacture at Mulhouse in France.

Wärtsilä and Volvo Penta reached agreement in August that Wärtsilä will start servicing and selling large Volvo Penta engines for commercial shipping applications.

The Power Plants division’s order intake between July and September showed a clear increase compared to the same period last year. The order book at the close of the period was EUR 462.9 million, exceeding last year’s figure by 46.0% and also significantly higher than at the end of 2002.

The largest orders for power plants received in the third quarter were placed in Central America and Asia. The power plant ordered in Honduras in August marked the largest in terms of output in Wärtsilä’s history. The American and Asian markets are also expected to stay active in the short term.

### MARINE

<table>
<thead>
<tr>
<th>Metric</th>
<th>2003 EUR million</th>
<th>2002 EUR million</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>BioPower, MWth</td>
<td>128</td>
<td>0</td>
<td>100.0%</td>
</tr>
<tr>
<td>Gas</td>
<td>246</td>
<td>158</td>
<td>55.6%</td>
</tr>
<tr>
<td>Order intake</td>
<td>127.5</td>
<td>152.2</td>
<td>-16.3%</td>
</tr>
<tr>
<td>Net sales</td>
<td>509.5</td>
<td>504.7</td>
<td>1.0%</td>
</tr>
<tr>
<td>Order intake</td>
<td>487.6</td>
<td>338.0</td>
<td>44.3%</td>
</tr>
<tr>
<td>Order book at end of period</td>
<td>640.5</td>
<td>745.4</td>
<td>-14.1%</td>
</tr>
</tbody>
</table>

1Includes license sales
2Includes Wärtsilä Propulsion for six months

The nine-month net sales of the Marine division improved slightly. Third-quarter net sales rose 31.3% to EUR 194.4 (148.0) million. The order intake for the full reporting period increased but the order intake between July and September was clearly lower than in the same period last year since most new orders were for 2-stroke engines manufactured under license. The order book at the end of September stood at EUR 640.5 million, or 14% lower than one year earlier. Sales of propellers and seals developed well.

Demand remained strong in the markets for large tankers, containerships, bulk carriers and LNG carriers. Underlying this trend were lively activity in freight traffic, the need for ship modernizations and preparations in anticipation of new IMO regulations. This indicates that these market segments will remain strong and that orders for other types of vessel could pick up as well.

In the application areas important to Wärtsilä’s manufacturing programme, however, order activity was at a lower level. Only two new orders for cruise ships have been placed this year. Twenty Wärtsilä 32 auxiliary engines will be supplied for five containerships to be built in China. Wärtsilä will also supply bow thrusters for six Argentinian offshore support vessels. In the market for auxiliary engines competition on prices is extremely intense in Asia.

Several orders for Sulzer engines manufactured under license were placed between July and September. Sulzer main engines have been ordered for 10 containerships to be built for India and for two large tankers to be built for India. The bulk carrier market continued to grow strongly in September; Sulzer main engines will be installed in 11 of the total 20 such vessels ordered.

### SERVICE

<table>
<thead>
<tr>
<th>Metric</th>
<th>2003 EUR million</th>
<th>2002 EUR million</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>218.7</td>
<td>205.5</td>
<td>6.4%</td>
</tr>
<tr>
<td>Personnel at 30 Sept.</td>
<td>5,938</td>
<td>5,501</td>
<td>8.0%</td>
</tr>
<tr>
<td>Long-term service agreements, MW</td>
<td>9,780</td>
<td>9,383</td>
<td>4.2%</td>
</tr>
<tr>
<td>O&amp;M (operation and maintenance) agreements, MW</td>
<td>2,215</td>
<td>1,922</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

Net sales of the Service division continued to rise but fell short of the long-term growth target. Third-quarter growth was 6.4%. The main reason behind the slower pace of growth was the weakening of the US dollar against the euro.

The volume of long-term service and operation and maintenance agreements (O&M) covers 12,000 MW, or more than 9% of Wärtsilä’s total active installed engine base (130,000 MW). The volume of long-term service agreements rose 4.2% to 9,780 MW compared to the same period last year. Operation and maintenance agreements cover 2,215 MW or 128 power plants around the world, an increase of 15.2%. Wärtsilä signed its first O&M agreement in Indonesia during the period. India continues to be a strong market.

### IMATRA STEEL

<table>
<thead>
<tr>
<th>Metric</th>
<th>2003 EUR million</th>
<th>2002 EUR million</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>40.6</td>
<td>41.2</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Operating loss</td>
<td>-0.8</td>
<td>-1.9</td>
<td>-6.4%</td>
</tr>
<tr>
<td>% of net sales</td>
<td>-2.1%</td>
<td>-4.6%</td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>151.1</td>
<td>147.9</td>
<td>2.2%</td>
</tr>
<tr>
<td>Operating loss/profit</td>
<td>-1.9</td>
<td>3.7</td>
<td>3.2</td>
</tr>
<tr>
<td>% of net sales</td>
<td>-1.3%</td>
<td>2.9%</td>
<td></td>
</tr>
</tbody>
</table>

Imatra Steel’s net sales rose 2.2% between January and September. Comparable net sales between July and September, excluding the spring business, increased 5.1%. All in all, demand in the special engineering steels sector remained unchanged.

Imatra Steel showed an operating loss of EUR -0.8 (-1.9) million between July and September. In addition to the costs arising from maintenance stoppages during the summer, the result was especially affected by the fact that the company was still unable to transfer the sharply increased raw material and energy costs to its product prices to a sufficient degree.

Imatra Steel Works’ modernization investments of the base metallurgical line - the bloom caster and the bloom reheating furnace were brought on stream as planned in August.
WÄRTSILÄ GROUP UNAUDITED

INCOME STATEMENT
Net Sales 1,635.4 1,792.6 2,519.0
Other operating income 17.1 130.6 138.3
Expenses –1,523.4 –1,682.6 –2,363.5
Depreciations and writedowns –81.6 –76.2 –105.4
Share of profits/losses in associated companies –0.3 0.6 0.4
Operating profit 47.2 165.0 188.9
Financial income and expenses –12.3 –7.1 –18.5
Result before taxes 34.9 157.9 170.4
Income taxes1 –10.5 –60.7 –47.6
Minority interests –0.4 –0.5 –1.0
Result for the financial period 24.0 96.7 121.9

FINANCIAL ANALYSIS
Cash flow from operating activities:
Operating profit 47.2 165.0 188.9
Depreciation and writedowns 81.6 76.2 105.4
Selling profit and loss of fixed assets and other adjustments –6.8 –113.3 –113.0
Changes in working capital –15.8 –104.0 –69.0
Cash flow from operating activities before financial items and taxes 106.1 23.9 112.3
Net financial expenses and paid income tax –43.5 –45.0 –56.9
Cash flow from operating activities (A) 62.6 –21.1 55.4

Cash flow from investing activities:
Net investments in tangible and intangible assets –31.0 –47.3 –56.0
Investments in shares and acquisitions –330.7 –354.7
Proceeds from sale of shares after taxes 8.3 121.8 119.2
Cash flow from other investing activities 10.9 3.0 5.2
Cash flow from investing activities (B) –253.2 –286.5

Cash flow from financing activities:
Issuance of share capital and premium 1.0
New long-term loans 181.4 454.9 472.0
Amortisation of long-term loans –12.2 –240.7 –276.1
Paid dividends –104.3 –104.3 –238.6
Changes in short term loans and other financing activities 98.7 259.4 275.1
Cash flow from financing activities (C) –126.3 235.0 232.3

Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-) –76.7 –39.3 1.3
Liquid funds at beginning of period 185.8 184.6 184.6
Liquid funds at end of period 109.1 145.3 185.8

BALANCE SHEET
Fixed assets 949.4 1,031.5 1,018.7
Current assets
Inventories 619.5 720.6 628.1
Receivables 778.6 839.7 852.3
Cash and bank balances 109.1 145.3 185.8
Total 2,456.6 2,737.1 2,685.0
Share capital 208.7 208.1 208.1
Other shareholders' equity 661.7 723.3 744.9
Minority interests 6.2 6.7 6.5
Provisions 122.0 163.6 154.0
Long-term liabilities 239.0 388.8 322.7
Current liabilities 1,219.0 1,246.5 1,248.8
Total 2,456.6 2,737.1 2,685.0
GROSS CAPITAL EXPENDITURE
Investments in securities and acquisitions
Power Divisions 1.2 330.8 348.6
Other investments
Power Divisions 31.3 38.0 58.7
Imatra Steel 9.2 12.6 16.0
Group 40.5 50.6 74.7
Net 41.7 381.4 423.3
INTEREST-BEARING LOAN CAPITAL
Long-term liabilities 197.9 348.9 281.2
Current liabilities 374.9 293.0 343.1
Convertible subordinated debentures 27.9 27.9 27.9
Loan receivables –26.9 –55.0 –35.7
Cash and bank balances –109.1 –145.3 –185.8
Net 464.6 469.4 430.6
FINANCIAL RATIOS
Earnings/share, EUR 0.40 1.63 2.05
Shareholders' equity/share, EUR 14.13 15.20 15.56
Solvency ratio 1, % 37.3 36.0 36.9
Solvency ratio 2, % 38.6 37.1 38.0
Gearing 1 0.58 0.58 0.50
Gearing 2 1.53 0.53 0.46

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

FINANCIAL ANALYSIS
Cash flow from operating activities:
Operating profit 47.2 165.0 188.9
Depreciation and writedowns 81.6 76.2 105.4
Selling profit and loss of fixed assets and other adjustments –6.8 –113.3 –113.0
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Changes in short term loans and other financing activities 98.7 259.4 275.1
Cash flow from financing activities (C) –126.3 235.0 232.3

Change in liquid funds (A)+(B)+(C), increase (+)/decrease(-) –76.7 –39.3 1.3
Liquid funds at beginning of period 185.8 184.6 184.6
Liquid funds at end of period 109.1 145.3 185.8

PERSONNEL
Power Divisions 10,972 10,155 11,024
Imatra Steel 1,349 1,402 1,393
Group 12,321 11,557 12,417
Personnel, at the end of the period 12,154 12,430 12,459

CONTINGENT LIABILITIES
Mortgages 52.1 65.1 64.7
Chattel mortgages 34.6 41.0 41.9
Total 86.7 106.1 106.6
Guarantees and contingent liabilities on behalf of Group companies 253.2 276.4 243.9
on behalf of associated companies 1.1 1.1 1.1
Leasing obligations 40.2 40.1 45.7
Total 294.5 317.6 290.7

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS
EUR million Total of which closed
Interest rate swaps 250.0 160.0
Foreign exchange forward contracts 893.1 100.1
Currency options, purchased 26.4

4 If all the above instruments were sold at market prices at the end of the period, the effect would have been EUR 21.7 million.
HOLDING IN ASSA ABLOY

Wärtsilä holds 27.8 million shares in Assa Abloy, or 7.6% of the total. The market value of this holding at the close of the period was EUR 211.1 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 AGM 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 Accountants KPMG Wideri Oy Ab were appointed as 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

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading in Helsinki, shares</td>
<td>33.8%</td>
<td>25.3%</td>
<td>43.4%</td>
</tr>
<tr>
<td>Trading in Helsinki, votes</td>
<td>15.1%</td>
<td>10.9%</td>
<td>19.9%</td>
</tr>
<tr>
<td>Trading on the SEAQ, shares</td>
<td>1.1%</td>
<td>10.1%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Foreign ownership at 30 Sept.</td>
<td>8.1%</td>
<td>11.2%</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

SHARES AT 30 Sept. 2003

<table>
<thead>
<tr>
<th></th>
<th>A share</th>
<th>B share</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of shares</td>
<td>15,415,855</td>
<td>44,202,057</td>
<td>59,617,912</td>
</tr>
<tr>
<td>No. of votes</td>
<td>154,158,550</td>
<td>44,202,057</td>
<td>198,360,607</td>
</tr>
</tbody>
</table>

SHARE PRICE ON THE HELSINKI EXCHANGES

<table>
<thead>
<tr>
<th></th>
<th>Highest</th>
<th>Lowest</th>
<th>Average¹</th>
<th>No. traded</th>
</tr>
</thead>
<tbody>
<tr>
<td>A share</td>
<td>13.69</td>
<td>10.00</td>
<td>12.00</td>
<td>1,094,729</td>
</tr>
<tr>
<td>B share</td>
<td>13.25</td>
<td>9.20</td>
<td>11.20</td>
<td>19,062,094</td>
</tr>
</tbody>
</table>

¹Trading volume weighted average price.

MARKET CONDITIONS AND PROSPECTS 2003

The intake of marine orders is expected to grow during the fourth quarter.

The Power Plants division’s order intake between July and September was substantially boosted by large single orders but this does not yet indicate a clear change in the general market situation. The unfavourable exchange rate continues to create uncertainty although there are already signs that demand is starting to pick up.

Acquisitions will focus on 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 leveraging the synergies offered by the Ciserv group and increasing sales of service contracts and service products.

Excluding restructuring costs, the net sales and operational profitability of the Power Divisions are expected to be at last year’s levels. Streamlining measures will be continued and once the plans and evaluations are completed a EUR 75-150 million restructuring provision will be entered in the fourth quarter that will burden the Power Divisions’ result for 2003.

The market outlook in Imatra Steel’s business is expected to continue unchanged during the final quarter. However, Imatra Steel’s net sales are expected to increase and its operational result to improve due to streamlining measures.

28 October 2003

Wärtsilä Corporation
Board of Directors