

WÄRTSILÄ UK LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003



WÄRTSILÄ UK LIMITED

COMPANY INFORMATION

| | |
|--------------------------|--|
| Directors | T K Blomberg T W Page |
| Secretary | M Longdin |
| Company Number | 993790 |
| Registered Office | 30 Brunel Way Segensworth Fareham Hampshire PO15 5SD |
| Auditors | KMPG Audit Plc Dukes Keep Marsh Lane Southampton SO14 3EX |
| Bankers | Nordea Bank Plc 8th Floor, City Place House 55 Basinghall Street London EC2V 5NB |

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

The directors present their annual report and audited financial statements for the year ended 31 December 2003.

Principal activities and review of the business

The company is principally engaged in sales and service of engines and associated propulsion systems for the marine industry. Both diesel and gas engines are sold and serviced for land-based power plants.

Some minor restructuring within the Service Division occurred in 2003, with the closure of the small depot at Brixham and the administration office in Glasgow. A total of 5 people were affected.

2003 continued the profitable recovery started in 2002 and was a sound result for the Division.

The Marine Division had another good year both in terms of deliveries and new orders, this is expected to be tougher during 2004 as the UK is affected by the overall decline in the marine sector.

Our Power Division remained depressed due to current energy prices and the situation is not expected to recover in the near future. However, the market in renewable energy sources has picked up and 2003 saw the delivery of a 5 MW Biopower plant to a sawmill in Ireland.

Results and dividends

The results for the year are set out on page 4. The directors recommend that a final ordinary dividend of £280,000 (2002: Nil) be paid.

Directors and their interests

The following directors have held office since 1 January 2003:

T K Blomberg

T W Page

The interests of T K Blomberg are disclosed in the directors' report of the parent company. T W Page had no interest in the shares of the company or any other group company.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



M Longdin
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF WÄRTSILÄ UK LIMITED**

We have audited the financial statements on pages 4 to 14.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc

Chartered Accountants
Registered Auditor
Southampton

27 October 2004

WÄRTSILÄ UK LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2003**

| | Notes | 2003 £ | 2002 £ |
|--|--------|---------------------|---------------------|
| Turnover | 1.2, 2 | 24,188,146 | 22,812,856 |
| Cost of sales | | <u>(19,289,082)</u> | <u>(17,962,739)</u> |
| Gross profit | | 4,899,064 | 4,850,117 |
| Administrative expenses | | <u>(3,874,282)</u> | <u>(3,869,002)</u> |
| Operating profit | 3 | 1,024,782 | 981,115 |
| Other interest receivable and similar income | 6 | 9,473 | 19,062 |
| Interest payable and similar charges | 7 | <u>(36,062)</u> | <u>(180,622)</u> |
| Profit on ordinary activities before taxation | | 998,193 | 819,555 |
| Tax on profit on ordinary activities | 8 | <u>(132,741)</u> | - |
| Profit on ordinary activities after taxation and profit for the financial year | | 865,452 | 819,555 |
| Dividends | 9 | (280,000) | - |
| Retained profit for the year | 18 | <u>585,452</u> | <u>819,555</u> |

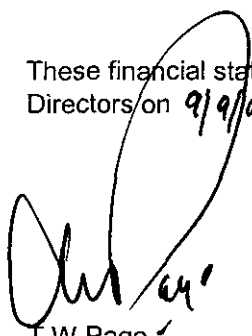
The financial statements are prepared under the historical cost convention; accordingly, there is no difference between the profit on ordinary activities before taxation and the profit on ordinary activities after taxation for the year as reported and their historical cost equivalents.

There are no recognised gains or losses for 2003 or 2002 other than the result for the year as reported above.

WÄRTSILÄ UK LIMITED**BALANCE SHEET
AS AT 31 DECEMBER 2003**

| | Notes | 2003 | | 2002 | |
|---|-------|--------------------|-------------------------|--------------------|-------------------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 10 | 355,493 | | 552,324 | |
| Investments | 11 | <u>3,522</u> | | <u>3,522</u> | |
| | | | 359,015 | | 555,846 |
| Current assets | | | | | |
| Stocks | 12 | 922,570 | | 1,018,466 | |
| Debtors | 13 | 5,820,765 | | 4,589,533 | |
| Cash at bank and in hand | | <u>154,538</u> | | <u>-</u> | |
| | | 6,897,873 | | 5,607,999 | |
| Creditors: amounts falling due within one year | 14 | <u>(4,582,694)</u> | | <u>(4,107,149)</u> | |
| Net current assets | | | <u>2,315,179</u> | | <u>1,500,850</u> |
| Total assets less current liabilities | | | 2,674,194 | | 2,056,696 |
| Provisions for liabilities and charges | 15 | | (66,044) | | (33,998) |
| Net assets | | | <u><u>2,608,150</u></u> | | <u><u>2,022,698</u></u> |
| Capital and reserves | | | | | |
| Called up share capital | 17 | | 2,550,000 | | 2,550,000 |
| Profit and loss account | 18 | | 58,150 | | (527,302) |
| Equity shareholder's funds | 19 | | <u><u>2,608,150</u></u> | | <u><u>2,022,698</u></u> |

These financial statements were approved by the Board of Directors on 9/9/04 and signed on its behalf by:



T W Page
Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003****1 Accounting Policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

1.1 Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a wholly owned subsidiary and the parent company (Wartsila Corporation Oy) produces publicly available consolidated accounts.

1.2 Turnover

Turnover represents amounts receivable for goods and services delivered to customers, net of VAT and trade discounts.

1.3 Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over their estimated useful lives, at the following rates:

| | |
|------------------------------|----------------------------|
| Leasehold land and buildings | over the life of the lease |
| Plant and machinery | over three to ten years |
| Computer equipment | over three to five years |
| Motor vehicles | over four years |

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Investments

Fixed asset investments are stated at cost less provision for permanent diminution in value.

1 Accounting Policies**(continued)****1.7 Stocks and work in progress**

Stocks are valued at the lower of cost or net realisable value. Cost is determined on a first in first out basis and includes handling and transport costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Work in progress (which includes goods in transit) is valued at the cost of raw materials and labour together with attributable overheads.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

1.8 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

1.9 Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Deferred tax assets are recognised only to the extent that it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.10 Related party disclosures

As the Company is wholly owned by Wartsila Corporation Oy, it has taken advantage of the exemption contained in the Financial Reporting Standard No. 8 and has, therefore, not disclosed transactions or balances with entities which form part of the Group headed by Wäertsilä Corporation Oy. The consolidated financial statements of Wäertsilä Corporation Oy, within which this company is included, can be obtained from the address given in note 21.

1.11 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are converted at rates of exchange prevailing at the date the transactions were made. Foreign exchange differences are dealt with through the profit and loss account.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

3 Operating profit is stated after charging/(crediting)

| | 2003 £ | 2002 £ |
|---|-----------|-----------|
| Depreciation of tangible assets | 255,580 | 333,279 |
| Operating lease rentals | | |
| - Land and buildings | 349,480 | 376,380 |
| - Plant and machinery | 6,764 | 6,764 |
| - Motor vehicles | 182,123 | 199,175 |
| Auditor's remuneration | 17,500 | 17,500 |
| Exceptional provision/(credit) for reorganisation (see note 15) | 66,044 | (242,981) |
| Charge/(credit) for foreign exchange loss/(gain) | 38,178 | 37,659 |

In 2001 following the consolidation of service administration and facilities in Southampton, supported by additional facilities at Aberdeen, premises in Glasgow, Brixham and Sevenoaks became surplus to requirements. Accordingly, a reorganisation provision was made for the expected costs of those premises prior to sub-letting or disposal. During 2002 these premises were sub-let.

4 Directors' emoluments

| | 2003 £ | 2002 £ |
|---|---------------|---------------|
| Directors' emoluments | 88,114 | 83,547 |
| Company pension contributions to money purchase schemes | 6,317 | 6,134 |
| | <u>94,431</u> | <u>89,681</u> |

Retirement benefits are accruing to one director (2002: one director) under money purchase pension schemes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

5 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

| | 2003 | 2002 |
|-----------------------|---------------|---------------|
| | Number | Number |
| Sales and services | 98 | 107 |
| Office and management | 15 | 20 |
| | <u>113</u> | <u>127</u> |

| | £ | £ |
|-----------------------------------|------------------|------------------|
| Employment costs | | |
| Wages and salaries | 4,127,444 | 3,993,699 |
| Social security costs | 416,904 | 445,454 |
| Other pension costs (see note 16) | 144,847 | 143,141 |
| | <u>4,689,195</u> | <u>4,582,294</u> |

| 6 Other interest receivable and similar income | 2003 | 2002 |
|---|--------------|---------------|
| | £ | £ |
| On bank deposit accounts | <u>9,473</u> | <u>19,062</u> |

| 7 Interest payable | 2003 | 2002 |
|---------------------------------------|---------------|----------------|
| | £ | £ |
| On amounts payable to group companies | <u>36,062</u> | <u>180,622</u> |

WÄRTSILÄ UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

8 Taxation

| | 2003 £ | 2002 £ |
|--------------------------------------|----------------|-----------|
| Tax on profit on ordinary activities | <u>132,741</u> | <u>-</u> |

The current tax charge for the period is lower (2002 lower) than the standard rate of corporation tax in the UK of 30%, (2002: 30%). The differences are explained below

| | 2003 £ | 2002 £ |
|---|----------------|----------------|
| Profit on ordinary activities before tax | <u>998,193</u> | <u>819,555</u> |
| Current tax at 30% (2002: 30%) | 299,458 | 245,867 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 12,069 | 46,184 |
| Capital allowances for period in excess of depreciation | 27,262 | (14,975) |
| Utilisation of tax losses | (206,048) | (277,076) |
| Total current tax charge (see above) | <u>132,741</u> | <u>-</u> |

Tax losses carried forward at 31 December 2003 are £nil (31 December 2002: £673,256).

9 Dividends

| | 2003 £ | 2002 £ |
|--|----------------|-----------|
| Final dividend proposed 11 pence per share (2002: nil) | <u>280,000</u> | <u>-</u> |

10 Tangible fixed assets

| | Leasehold land and buildings £ | Plant and machinery £ | Computer equipment £ | Motor vehicles £ | Total £ |
|-----------------------|---|-----------------------------|----------------------------|------------------------|------------------|
| Cost | | | | | |
| At 1st January 2003 | 387,566 | 995,370 | 531,364 | 65,683 | 1,979,983 |
| Additions | 15,552 | 1,164 | 42,033 | - | 58,749 |
| At 31st December 2003 | <u>403,118</u> | <u>996,534</u> | <u>573,397</u> | <u>65,683</u> | <u>2,038,732</u> |
| Depreciation | | | | | |
| At 1st January 2003 | 132,458 | 841,216 | 388,302 | 65,683 | 1,427,659 |
| Charge for the year | 86,127 | 52,606 | 116,847 | - | 255,580 |
| At 31st December 2003 | <u>218,585</u> | <u>893,822</u> | <u>505,149</u> | <u>65,683</u> | <u>1,683,239</u> |
| Net book value | | | | | |
| At 31st December 2003 | <u>184,533</u> | <u>102,712</u> | <u>68,248</u> | <u>-</u> | <u>355,493</u> |
| At 31st December 2002 | <u>255,108</u> | <u>154,154</u> | <u>143,062</u> | <u>-</u> | <u>552,324</u> |

11 Fixed asset investments

| | Shares in subsidiary undertakings £ |
|--|--|
| Cost | |
| At 1 January 2003 and 31 December 2003 | <u>19,500</u> |
| Provisions for diminuation in value | |
| At 1 January 2003 and 31 December 2003 | <u>15,978</u> |
| Net book value | |
| At 31 December 2002 and 31 December 2003 | <u><u>3,522</u></u> |

Holdings of more than 20%

The company holds more than 20% of the shares capital of the following companies:

| Subsidiary undertakings Company | Country of registration or incorporation | Class | Shares held % |
|------------------------------------|---|----------|------------------|
| Wartsila Ireland Limited | Ireland | Ordinary | 100 |
| Wartsila Caspian Limited | England | Ordinary | 100 |

Wartsila Caspian Limited was dissolved on 9 March 2004.

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows.

| | Capital and reserves £ | Profit for the year £ |
|--------------------------|------------------------------|-----------------------------|
| Wartsila Ireland Limited | 186,091 | 91,668 |
| Wartsila Caspian Limited | - | - |

12 Stocks and work in progress

| | 2003 £ | 2002 £ |
|-------------------------------------|-----------------------|-------------------------|
| Work in progress | 572,989 | 309,300 |
| Finished goods and goods for resale | 349,581 | 709,166 |
| | <u><u>922,570</u></u> | <u><u>1,018,466</u></u> |

WÄRTSILÄ UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

| | | |
|---|------------------|-----------------------------------|
| 13 Debtors | 2003 | 2002 |
| | £ | £ |
| Trade debtors | 3,961,790 | 3,167,900 |
| Amounts owed by parent and fellow subsidiary undertakings | 1,588,713 | 1,268,120 |
| Amounts owed by subsidiary undertakings | 89,202 | 66,563 |
| Other debtors | 37,800 | 42,200 |
| Prepayments and accrued income | 143,260 | 44,750 |
| | <u>5,820,765</u> | <u>4,589,533</u> |
| 14 Creditors: amounts falling due within one year | 2003 | 2002 |
| | £ | £ |
| Bank loans and overdrafts | - | 11,962 |
| Payments received on account | - | 268,004 |
| Trade creditors: | | |
| Third parties | 273,640 | 481,448 |
| Group undertakings | 2,059,766 | 919,901 |
| Short term loans from group undertakings | 1,290,705 | 1,774,529 |
| Taxation and social security costs | 198,179 | 124,583 |
| Accruals and deferred income | 350,505 | 526,722 |
| Dividend proposed | 280,000 | - |
| Corporation tax payable | 129,899 | - |
| | <u>4,582,694</u> | <u>4,107,149</u> |
| 15 Provision for liabilities and charges | | Reorgan- isation £ |
| Balance at 1st January 2003 | | 33,998 |
| Utilised during the year | | (33,998) |
| Charge to the profit and loss account for the year | | 66,044 |
| Balance at 31 December 2003 | | <u>66,044</u> |
| 16 Pension costs | 2003 | 2002 |
| | £ | £ |
| Contributions payable by the company for the year | <u>144,847</u> | <u>143,141</u> |

WÄRTSILÄ UK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2003

| 17 | Share capital | 2003 | 2002 |
|--------------------|---|-------------------|--|
| | | £ | £ |
| | Authorised | | |
| | 2,550,000 Ordinary shares of £1 each | <u>2,550,000</u> | <u>2,550,000</u> |
| | Allotted, called up and fully paid | | |
| | 2,550,000 Ordinary shares of £1 each | <u>2,550,000</u> | <u>2,550,000</u> |
| 18 Reserves | | | Profit and loss account £ |
| | Balance at 1 January 2003 | | (527,302) |
| | Retained profit for the year | | 585,452 |
| | Balance at 31 December 2003 | | <u>58,150</u> |
| 19 | Reconciliation of movements in shareholder's funds | 2003 | 2002 |
| | | £ | £ |
| | Profit for the financial year | 865,452 | 819,555 |
| | Dividends | <u>(280,000)</u> | <u>-</u> |
| | Net addition to shareholder's funds | 585,452 | 819,555 |
| | Opening shareholder's funds | 2,022,698 | 1,203,143 |
| | Closing shareholder's funds | <u>2,608,150</u> | <u>2,022,698</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

20 Lease commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows

| | Land and buildings | | Other | | Total | Total |
|----------------------------|--------------------|----------------|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | £ | £ | £ | £ | £ | £ |
| Expiry date: | | | | | | |
| Within one year | 2,975 | 24,100 | 24,048 | 77,286 | 27,023 | 101,386 |
| Between two and five years | 133,133 | 109,148 | 164,839 | 128,653 | 297,972 | 237,801 |
| In over five years | 88,000 | 117,760 | - | - | 88,000 | 117,760 |
| | <u>224,108</u> | <u>251,008</u> | <u>188,887</u> | <u>205,939</u> | <u>412,995</u> | <u>456,947</u> |

21 Ultimate parent undertaking

The company's ultimate holding company, and ultimate controlling party, is Wärtsilä Corporation Öy, which is incorporated in Finland and listed on the Helsinki Stock Exchange.

The only group in which the results of the company are consolidated is that headed by Wärtsilä Corporation Öy. The consolidated accounts of this company are available to the public and may be obtained from 30 Brunel Way, Segensworth, Fareham, Hampshire, PO15 5SD.