



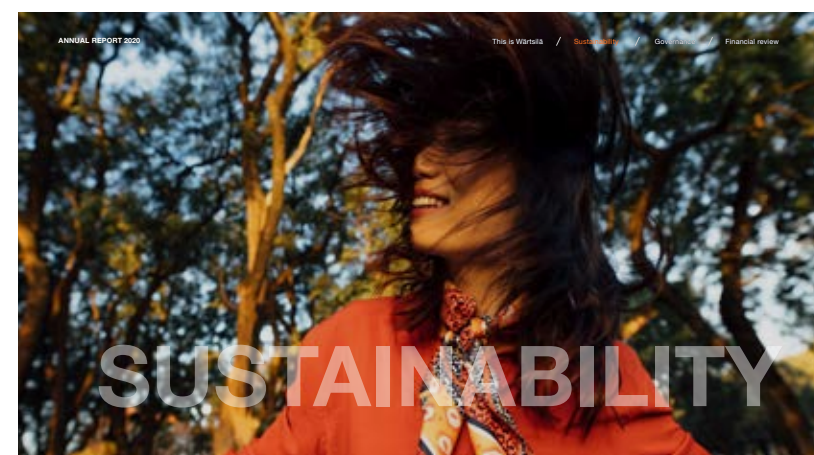
WÄRTSILÄ
ANNUAL REPORT
2020

CONTENTS



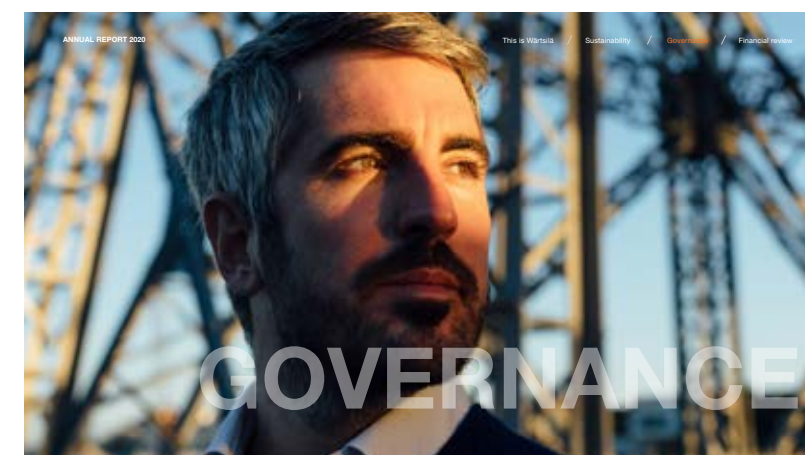
This is Wärtsilä

2020 in brief	4
Key figures	5
Businesses in brief	6
Highlights	7
CEO review	9
Operating environment and strategy	12
Operating environment	13
Strategy	18
Creating value	22
Businesses	23
Wärtsilä Marine Power	24
Wärtsilä Marine Systems	26
Wärtsilä Voyage	28
Wärtsilä Energy	30
Wärtsilä Portfolio Business	32
R&D and innovation	33



Sustainability

Sustainability at Wärtsilä	42
Stakeholder engagement	46
Responsible business conduct	51
People and culture	54
Environmental management	57
Occupational health and safety	62
Supply chain management	65
Sustainability data	67
Economic	68
Environment	72
Social	78
Compliance	84
Report profile	86
Materiality assessment	88
Reporting principles	93
Independent assurance report	96
GRI index	99



Governance

Corporate governance statement	109
Annual General Meeting	110
Shareholders' Nomination Board	111
Board of Directors	112
Group management	118
Internal control	122
External audit	124
Remuneration report	125
Risks and risk management	132



Financial review

Board of Director's report	144
Five years in figures	159
Quarterly figures	161
Calculations of financial ratios	163
Financial statements	165
Consolidated financial statements	165
Parent company financial statements	227
Auditor's report	238
Wärtsilä in the capital markets	243
Information for shareholders	248

WÄRTSILÄ IN BRIEF

Wärtsilä is a global leader in smart technologies and complete lifecycle solutions for the marine and energy markets. By emphasising sustainable innovation, total efficiency and data analytics, Wärtsilä maximises the environmental and economic performance of the vessels and power plants of its customers.

www.wartsila.com

Wärtsilä's purpose is to enable sustainable societies with smart technology. The demand for clean and flexible energy, and the need for efficient and safe transportation are increasingly affecting the way that customers operate. This forms the basis for Wärtsilä's Smart Marine and Smart Energy visions.



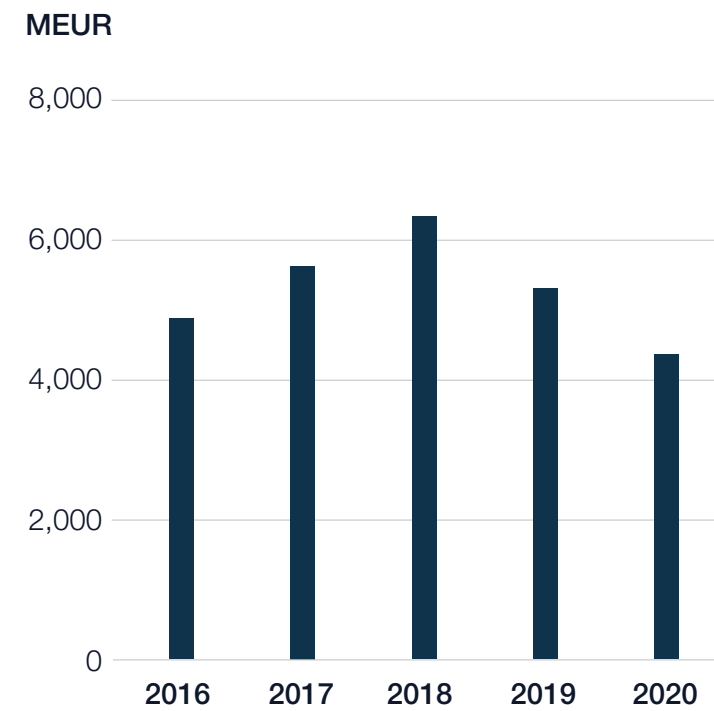
THIS IS WÄRTSILÄ



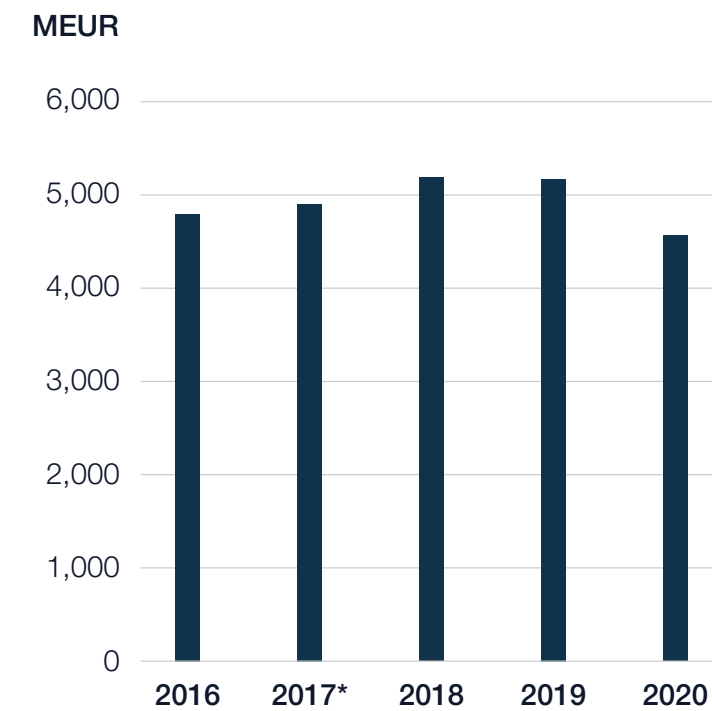
2020 IN BRIEF

KEY FIGURES

Order intake

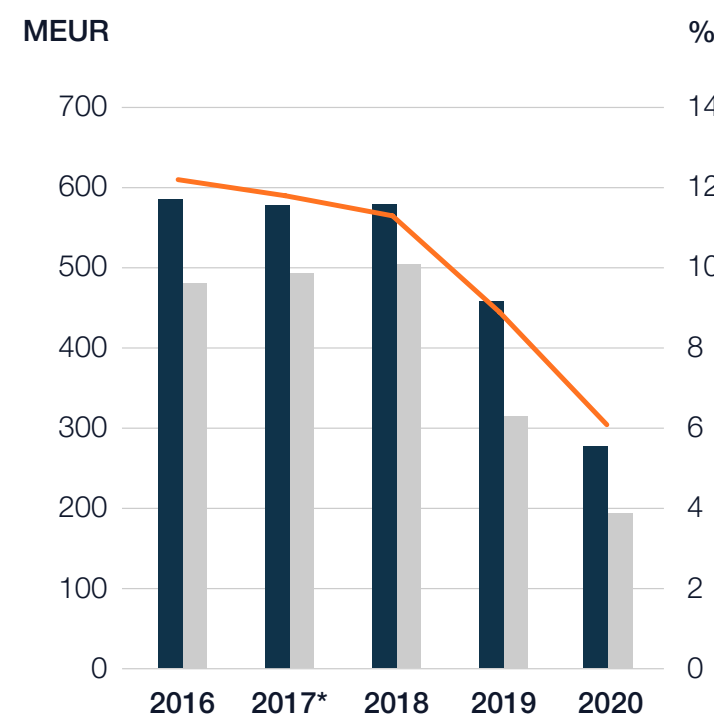


Group net sales development



* Restated due to IFRS 15

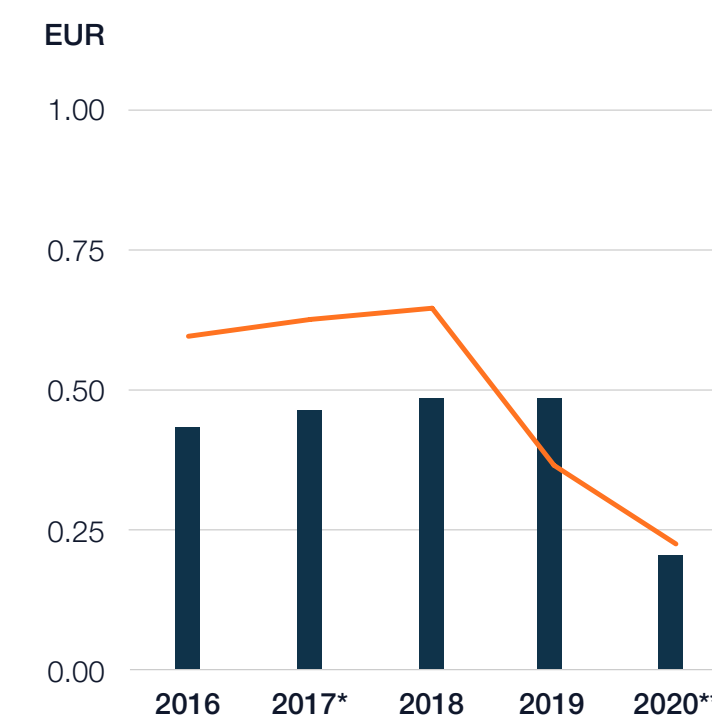
Result



■ Comparable operating result
■ Profit before taxes
— Comparable operating result, %

* Restated due to IFRS 15

Dividend/share, earnings/share



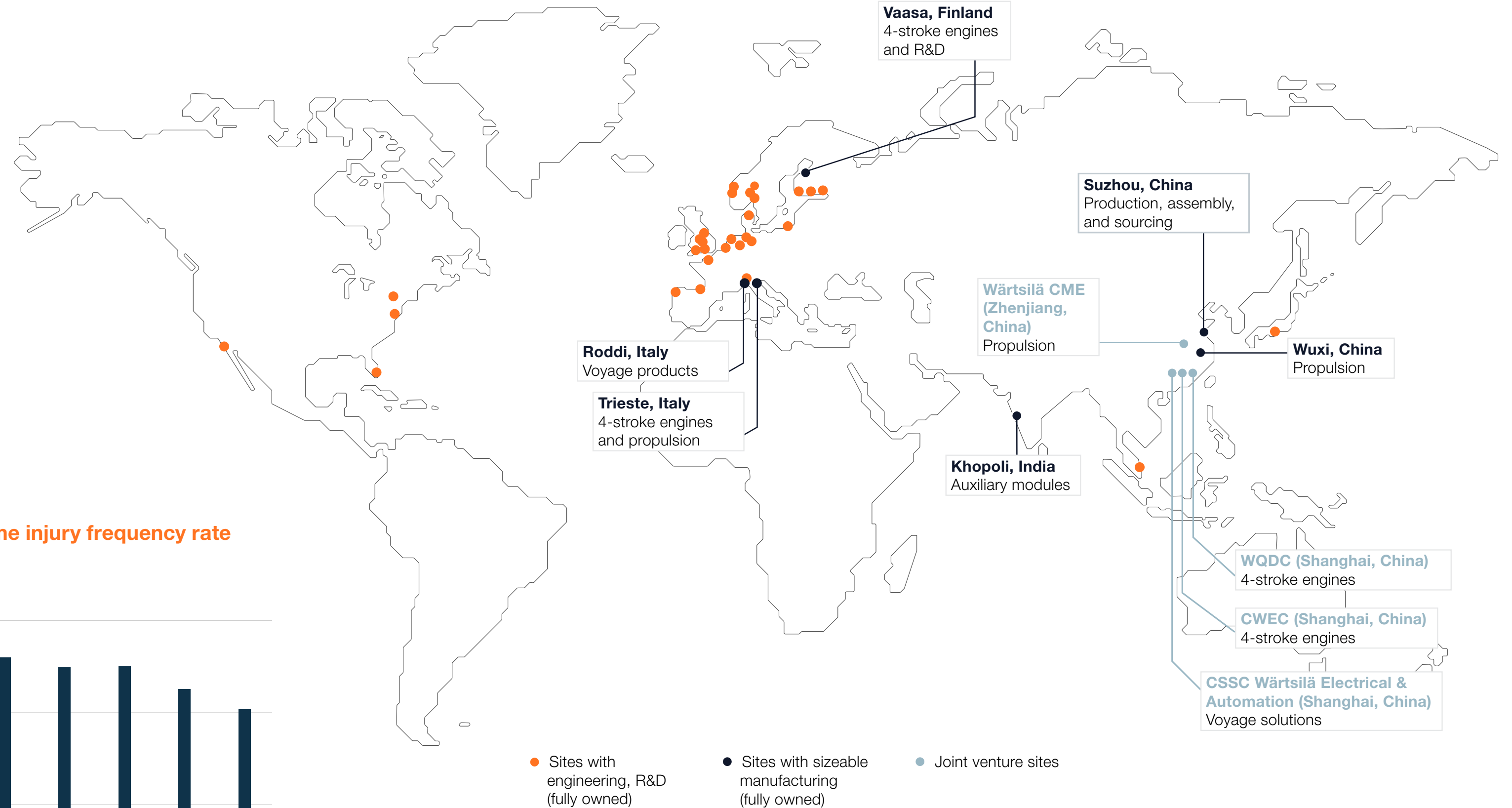
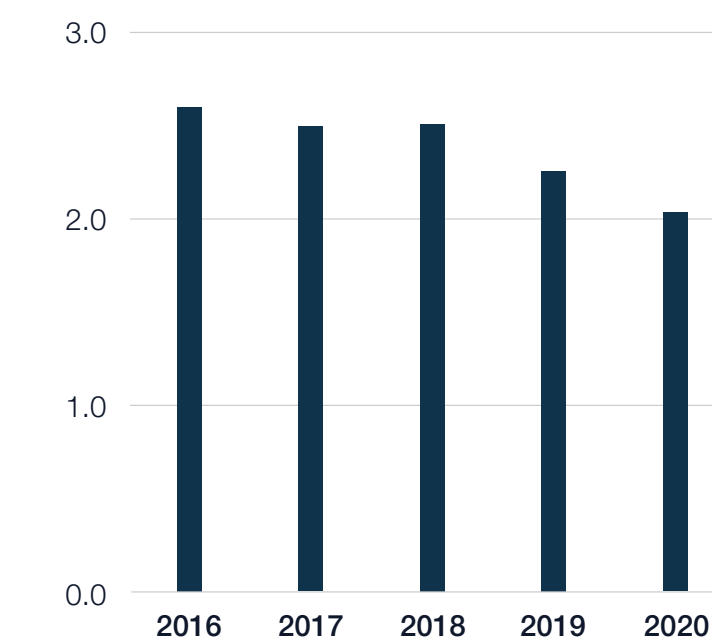
■ Dividend/share
— Earnings/share

* Restated due to IFRS 15

** Proposal of the Board

Dividend/share and earnings/share for 2016–2017 have been restated to reflect the increased number of shares.

Lost-time injury frequency rate (LTIF)



Personnel

17,792

Operations in

>70 countries

Sales and service network

258 locations

BUSINESSES IN BRIEF

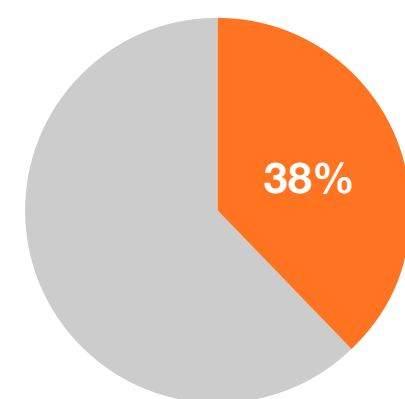


Wärtsilä Marine Power

Wärtsilä Marine Power leads the industry in its journey towards a decarbonised and sustainable future. Our portfolio of engines, propulsion systems, hybrid technology, and integrated powertrain systems deliver the reliability, safety, and environmental performance that Wärtsilä's Smart Marine vision encompasses. We offer our customers performance-based agreements, lifecycle solutions, and an unrivalled global network of maritime expertise.

Share of total net sales

Personnel



8,355

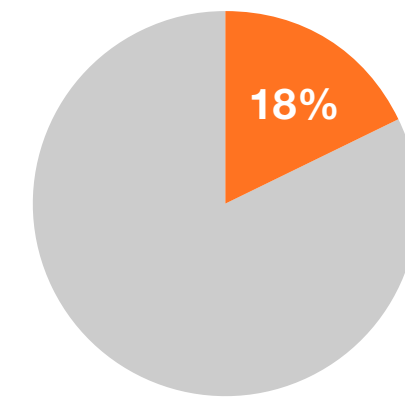


Wärtsilä Marine Systems

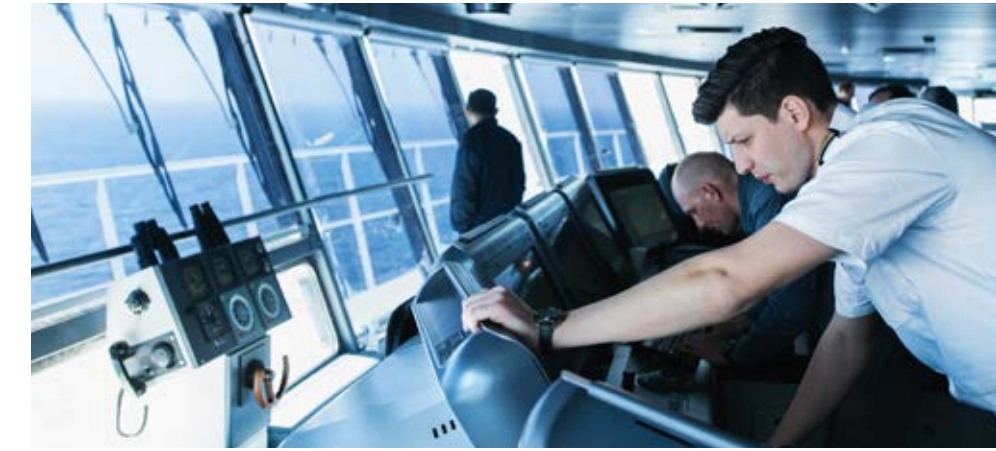
Wärtsilä Marine Systems offers high-quality products, solutions, and lifecycle services related to the gas value chain, exhaust treatment applications, seals & bearings, shaft line repair services, underwater services, and marine electrical integrations. Our aim is to provide the latest and most efficient solutions in line with Wärtsilä's Smart Marine Ecosystem vision for a safer, better, and more sustainable future for our customers.

Share of total net sales

Personnel



1,897

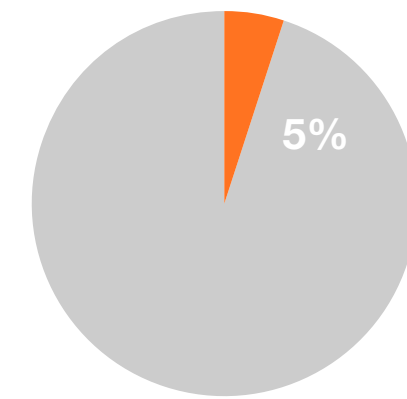


Wärtsilä Voyage

Wärtsilä Voyage transforms how vessels perform their voyage by leveraging the latest digital technologies to deliver a step-change in safety, efficiency, reliability, and emissions. We are committed to creating a Smart Marine Ecosystem, whereby every vessel can connect to digital services that make voyaging safer and greener. With the broadest Smart Marine portfolio in the market, we are well positioned to lead the industry towards becoming digitally connected across the entire value chain and to be the first partner of choice when leveraging the latest digital technologies.

Share of total net sales

Personnel



1,915

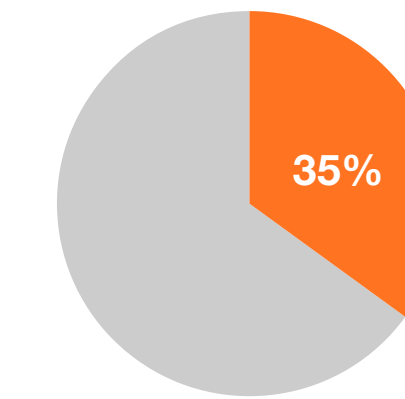


Wärtsilä Energy

Wärtsilä Energy leads the transition towards a 100% renewable energy future. We help our customers unlock the value of the energy transition by optimising their energy systems and future-proofing their assets. Our offering comprises flexible power plants, energy management and storage systems, as well as lifecycle services that enable increased efficiency and guaranteed performance.

Share of total net sales

Personnel



4,888

HIGHLIGHTS

HÅKAN AGNEVALL APPOINTED WÄRTSILÄ'S NEXT PRESIDENT AND CEO

Wärtsilä's Board of Directors appointed Håkan Agnevall as the new President and CEO for Wärtsilä. Mr Agnevall assumed the role on 1 February 2021. He succeeds Jaakko Eskola, who continues as a senior advisor to the Board and executive team until he retires on 30 June 2021.



CHANGES IN THE ORGANISATIONAL STRUCTURE AND NEW MEMBERS IN THE BOARD OF MANAGEMENT

Wärtsilä reorganised its Marine Business into three independent businesses, with the objective of accelerating strategy execution, simplifying the business structure, and strengthening business presence in the Board of Management. The new businesses, consisting of Wärtsilä Marine Power, Wärtsilä Marine Systems, and Wärtsilä Voyage, became operational on 1 July 2020.

Following this announcement, Roger Holm, previously the President of Wärtsilä Marine Business, was appointed President of Wärtsilä Marine Power, Tamara de Gruyter was appointed President of Wärtsilä Marine Systems, and Sean Fernback was appointed President of Wärtsilä Voyage.

Furthermore, Sushil Purohit was appointed President of Wärtsilä Energy.

WÄRTSILÄ'S LONG-TERM COMMITMENT TO SUSTAINABILITY RECOGNISED BY DOW JONES SUSTAINABILITY INDICES

For the fifth year in a row, Wärtsilä was selected as an index component of the Dow Jones Sustainability Indices (DJSI), both in the DJSI World and DJSI Europe indices. S&P Dow Jones Indices has been a pioneer in ESG indexing for 20 years.

Member of
**Dow Jones
Sustainability Indices**

Powered by the S&P Global CSA

DEVELOPING FUTURE FUEL READINESS

Wärtsilä, in close customer cooperation with Knutsen OAS Shipping AS and Repsol, as well as with the Sustainable Energy Catapult Centre, will commence the world's first long-term, full-scale, testing of ammonia as a fuel in a marine 4-stroke combustion engine. The project will begin in the Sustainable Energy Catapult Centre's testing facilities at Stord, Norway during the first quarter of 2021.

In addition, Wärtsilä announced that it is developing the combustion process in its gas engines to enable them to burn 100% hydrogen fuel. Wärtsilä has researched hydrogen as a fuel for 20 years, and has tested its engines with blends of up to 60% hydrogen and 40% natural gas.



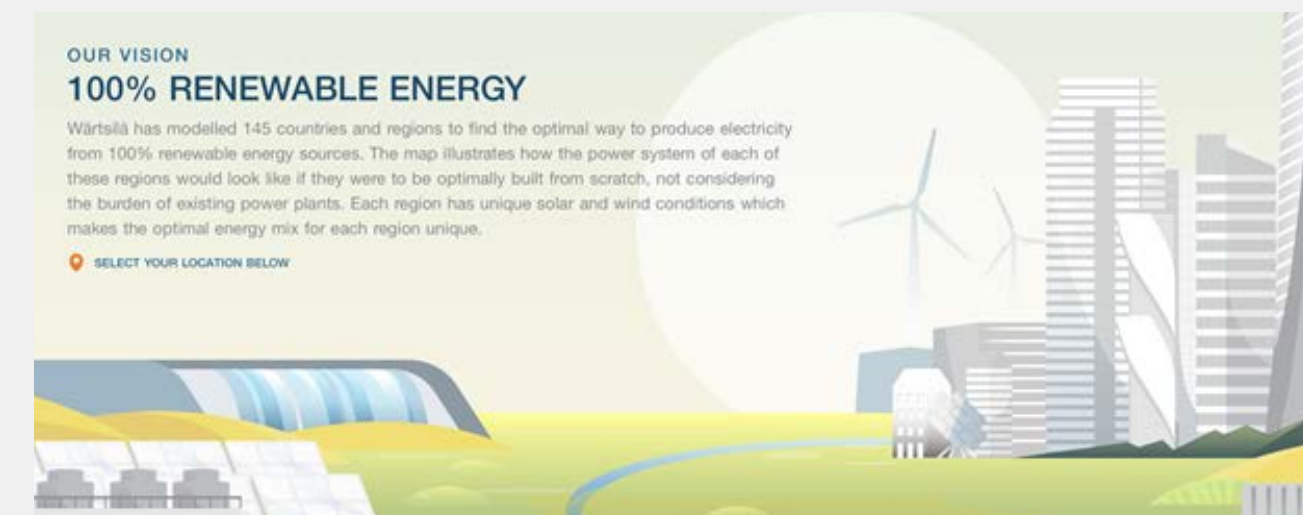
SUCCESSFUL APPLICATION OF WÄRTSILÄ NAVI-PORT HIGHLIGHTS BENEFITS OF JUST-IN-TIME SAILING

Wärtsilä, together with project partners Carnival Maritime and HVCC Hamburg Vessel Coordination Center, have successfully implemented and tested the new Wärtsilä Navi-Port solution for just-in-time sailing. Together, the partners achieved seamless exchange of data between ship and shore under real-life conditions, thereby enabling optimal port arrival. Furthermore, Wärtsilä Navi-Port received approval in principle from Bureau Veritas Marine and Offshore for meeting the classification society's cyber security requirements.



SUPPORTING THE TRANSITION TO 100% RENEWABLE ELECTRICITY SYSTEMS

Wärtsilä published an extensive interactive map Atlas of 100% Renewable Energy on cost-optimal, 100% renewable electricity systems globally. The map provides valuable information on the potential of renewable energy in relation to geographical regions and their solar and wind conditions. Wärtsilä has modelled 145 countries and different regions of the world in one hour dispatch granularity to provide an illustrative guide as to the cost-optimal potential of developing 100% renewable electricity systems.



COOPERATING ON CARBON-NEUTRAL SYNTHETIC BIOGAS PRODUCTION

Wärtsilä and Vantaa Energy Ltd., a Finnish energy company, signed an agreement on a joint concept feasibility study for a power-to-gas facility at Vantaa Energy's waste-to-energy plant in the city of Vantaa. The power-to-gas facility would produce carbon-neutral synthetic biogas using carbon dioxide emissions and electricity generated at the waste-to-energy plant. The purpose of the joint study is to confirm the optimal size of the project and the cost of synthetic biogas for district heating, as well as to understand the boundary conditions for project feasibility.

WÄRTSILÄ POWERS THE WORLD'S LARGEST NGO HOSPITAL SHIP

Mercy Ships, a philanthropic organisation providing essential healthcare to needy patients in developing countries, will be utilising Wärtsilä's engine technology in the organisation's new hospital ship. When completed, the Global Mercy will be the world's largest vessel of its kind, and will be powered by four Wärtsilä 32 engines. Wärtsilä will also service the ship under a five-year agreement.





DEAR READER,

The onset of the coronavirus (COVID-19) pandemic caused 2020 to be an unprecedented year. It was soon evident that activity in our end markets would be heavily affected by the virus outbreak and the containment measures taken globally, thus affecting our operations and financial performance. Vessel contracting decreased to record low levels, investments in new power plant capacity were postponed, and service activities were affected by the decline in installation utilisation and travel restrictions limiting the mobility of service engineers.





ENSURING BUSINESS CONTINUITY AND EMPLOYEE HEALTH AND SAFETY

Because of the pandemic, ensuring the health and safety of our employees, while simultaneously securing business continuity, became more important than ever. Wärtsilä's workforce operates globally, with thousands of employees performing tasks on-site, either in the field or at customer premises. We quickly established a global crisis response team and local country incident management teams, and we also implemented a wide range of special arrangements in all impacted locations. These included rearranging shifts and production to avoid contamination, optimised use of multiple sourcing, as well as using virtual tools for testing, validation, and service activities. Furthermore, digital collaboration tools were introduced to accommodate the increasing need for remote working.

DEMAND ENVIRONMENT WEAKENED BY MARKET UNCERTAINTY

Deteriorating macroeconomic conditions have caused customers in both of our end markets to re-evaluate their capital and operating expenditure plans. In the marine markets, the decline in seaborne trade and travel restrictions limited the appetite for newbuild investments and impacted fleet utilisation, and thus the demand for spare parts and maintenance activities across all segments. The cruise segment in particular was affected, as travel bans and other mitigation measures kept most vessels idle for the greater part of the year. Turmoil in the global energy markets affected demand in the offshore and LNG segments, as well as customers' interest in scrubber technology. This market backdrop caused order intake to decline across all our marine businesses. The COVID-19 related slowdown of economic activity also had a negative impact on the global liquid and gas fuelled power plant markets throughout 2020. While the market situation stabilised towards the end of the year, order intake in our Energy business was clearly burdened by the prevailing uncertainty.

Despite the challenges we faced, I am pleased to note some areas of resilience. The increasing need for short-term flexible capacity supported activity in the energy storage market, which was reflected in the steady flow of orders that we received throughout the year. These included, among others, the first order for the recently launched GridSolv Quantum energy storage system. In the more traditional part of our offering, we received a sizeable contract from Europe for the supply of four gas power plants. These new fast-starting plants will provide flexible system balancing as more renewable power is incorporated into the local power system. In the marine markets, the adoption of new technologies and digital applications accelerated in response to restrictions in physical travel and the need to enhance competitive positioning. The order from UltraShip Denmark to install the cloud-based Wärtsilä Fleet Operations Solution (FOS) across their entire fleet is yet another acknowledgment of the benefits of improved efficiency through collaborative voyage planning and execution. These, and other similar orders, represent an encouraging endorsement of our Smart Marine and Smart Energy strategies, which position us well in supporting our customers as they adapt to the transition towards decarbonisation taking place in our end markets.

FINANCIAL PERFORMANCE IMPACTED BY COVID-19

Despite the encouraging signs mentioned above, the impact of the pandemic on our financial performance for the year was, as anticipated, significant. Net sales decreased by 11%, as travel restrictions and our customers' focus on conserving cash caused a decline in service volumes and postponements in equipment deliveries. These negative effects, together with the delivery of the projects we flagged as being affected by cost overruns in 2019, created an unfavourable sales mix and weakened our operating result. The operating result was further burdened by weaker than normal fixed cost absorption caused by factories having to run at lower than usual capacity and the restricted mobility of field service personnel. To mitigate the financial effects of

“ENSURING THE HEALTH AND SAFETY OF OUR EMPLOYEES, WHILE SIMULTANEOUSLY SECURING BUSINESS CONTINUITY, HAS NATURALLY BEEN HIGH ON OUR AGENDA. HOWEVER, POSITIONING OURSELVES FOR THE EVENTUAL MARKET RECOVERY IS OF EQUAL IMPORTANCE.”



COVID-19, we sought temporary cost savings by reducing discretionary spending, as well as by implementing worktime reductions and temporary layoffs. We also took significant actions to secure our financial position by decreasing credit risk and improving working capital. Inventory management and receivables collection were particular areas of focus. I'm pleased to see that these efforts have paid off, as illustrated by the record high levels that our operating cash flow reached.

EVOLVING THE ORGANISATIONAL STRUCTURE TO ACCELERATE STRATEGY IMPLEMENTATION

Mitigating the COVID-19 related near-term business disruptions has naturally been high on our agenda. However, positioning ourselves for the eventual market recovery is of equal importance. In this context, a key consideration is to ensure the successful implementation of our new organisational structure, which became operational at the beginning of July. By reorganising the previous Marine Business structure into three independent businesses, we are able to simplify the organisation, thereby increasing the agility and speed of our decision-making. Furthermore, our businesses are today in very different development phases and thus require different strategies for creating long-term value. Going forward, Marine Power, Marine Systems, and Energy will continue to focus on driving performance by strengthening their lifecycle offerings. Voyage, on the other hand, will prioritise scaling its digital business to create a basis for sustainable, profitable growth.

UNWAVERING FOCUS ON R&D DESPITE MARKET DISRUPTION

Investing in technological leadership is a vital ingredient in fulfilling our Smart Marine and Smart Energy ambitions and supporting the global drive towards decarbonisation. It also ensures the competitiveness of Wärtsilä's product portfolio, while emphasising our leading position in sustainable innovation. This is why, despite the COVID-related disruptions to our operations, our commitment to R&D activities has

remained unchanged. During the year, we launched several commercial solutions to support our customers in overcoming the challenges currently being faced. One example of such a solution is the Assured Operations remote support service, which enables technical experts to assess and resolve operational issues via a remote connection between vessels at sea and Wärtsilä's Expertise Centres. Another is Wärtsilä's new cloud simulation platform, which was launched to enable maritime academies and seafarer schools to continue their training schedules despite lockdowns and distancing requirements.

Simultaneously, we have continued to invest in developing our digital offering and fuel flexible solutions, enabling us to capture future growth opportunities related to the decarbonisation and transformation of the marine and energy industries. Key developments in the use of alternative, environmentally friendly fuels include the initiation of full-scale testing of ammonia in our engines, and our efforts to develop the gas engine combustion process to be able over time to burn 100% hydrogen fuel. In the energy markets, we are applying data-based solutions as we step up efforts to support our customers in understanding and accelerating the energy transformation. An example of this is the launch of the Energy Transition Lab, a platform that provides a better understanding of the implications of the increased integration of energy from renewable sources, such as wind and solar, on electricity generation, demand, and pricing.

A CONSISTENT EMPHASIS ON RESPONSIBLE BUSINESS CONDUCT

While our strategy places a strong emphasis on reducing harmful environmental impacts and aiding customers to comply with increasingly stringent regulations, social considerations are of equal importance to us. Our purpose demonstrates our ambition to contribute towards the well-being of society, and to foster an inclusive corporate culture by respecting diversity, providing equal opportunities, and

demonstrating high ethical standards. In this context, we are committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment, and anti-corruption.

WELL POSITIONED FOR THE EVENTUAL MARKET RECOVERY

While COVID-19 is likely to continue to affect the markets in which we operate during the year ahead, the development of effective vaccines has provided some relief to the markets. We expect to see this having a positive effect on our business during the course of 2021, as country level vaccination programmes are implemented on a global scale. Looking further ahead, I remain confident that our strategy, and the organisational changes we implemented last year, position us well to capture opportunities arising from decarbonisation efforts in both the marine and energy markets.

Ahead of my impending retirement, I would like to take the opportunity to thank all my colleagues throughout Wärtsilä for your dedication and support. It has been a true pleasure to work with you in developing Wärtsilä into the smart technology company it is today. I would also like to thank our shareholders and customers for your continued support throughout the past challenging year. As we head for the light at the end of the tunnel, I trust that our solutions and services will deliver greater benefits in the months and years ahead.

Jaakko Eskola
President & CEO until 31 January 2021

An aerial photograph of a city skyline at dusk. The foreground shows a marina with numerous white yachts docked at piers. The middle ground is filled with tall, modern skyscrapers, some with lights on. The background shows a range of mountains under a cloudy sky with a soft sunset glow.

OPERATING ENVIRONMENT AND STRATEGY

OPERATING ENVIRONMENT

MARINE

Decarbonisation and digitalisation transforming marine operations

The transition towards decarbonised operations is of paramount importance to the maritime industry, and stricter regulations on ship emissions are expected to come into force worldwide. Over the coming years, industry players must work together to develop economically viable options that meet the International Maritime Organisation's (IMO) emission targets. The IMO aims to reduce the average CO₂ emissions per transport work by at least 40% by 2030 and the total annual greenhouse gas (GHG) emissions by at least 50% by 2050, compared to 2008 levels. Furthermore, the EU is set to include shipping in its emissions trading scheme, while green finance has gained traction with increased attention on green bonds and sustainability linked loans.

Vessel owners must embrace changes in four areas for the transition towards decarbonisation to succeed:

- A shift in energy sources and fuels towards green alternatives
- The use of abatement technologies to remove harmful emissions
- The adoption of technologies that improve energy efficiency
- The use of data to optimise voyage and operational factors

The adoption of alternative fuels is key to the achievement of GHG targets. Significant investments have been made in zero-carbon fuels, such as green ammonia and hydrogen. However, LNG remains the most well-developed alternative, with 3% of the fleet and 26% of the order book fitted or set to be equipped with dual-fuel engines, and more than 120 ports currently providing LNG bunkering services. The abatement of local pollutants is also a key focus area, where the global sulphur cap set by the IMO came into force at the beginning of 2020. This means that ships have either to use low-sulphur fuel or install scrubbers. Currently, 23% of the fleet and 28% of the order book in terms of gross tonnage is fitted with scrubber systems.

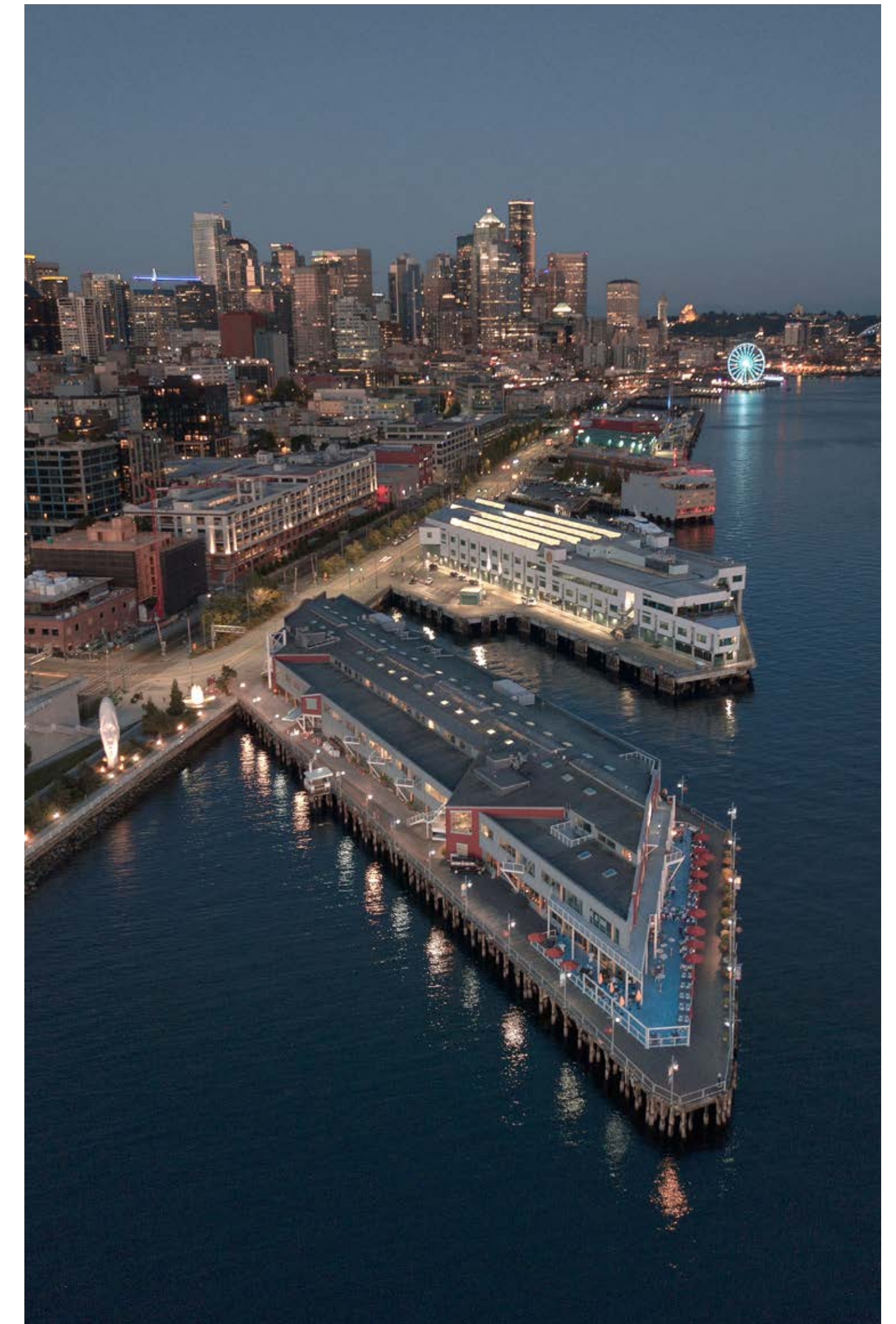
Significant leaps in energy efficiency are also possible through the application of innovative technologies, both in newbuild and retrofit projects. These include hybrid systems, hull air lubrication, rotor sails, as well as advanced rudder and propeller designs. The drivers for the implementation of new solutions are balanced between the common effort to reduce emissions and the potential for lowering operating costs.

In the context of digitalisation, fleet optimisation solutions are increasingly being acknowledged as central to the global requirement for reducing operating costs, while complying with environmental ambitions. New digital applications and cloud-based remote solutions are gaining traction, while ship-to-port communications, as well as document and data exchange, are increasingly being handled electronically rather than via personal interaction. In parallel, different degrees of autonomous shipping are being explored as a key means for boosting fleet efficiency, safety, environmental sustainability, and overall operational performance.

Market drivers

The global demand for new vessels is mainly driven by:

- Developments within the global economy and the resulting impact on seaborne trade
- The energy mix and its resulting impact on the offshore industry, as well as on the trading of oil, coal, and gas
- Demand for cruise and passenger transportation
- The move towards decarbonisation and greater energy efficiency, as well as the introduction of new regulations to improve safety and sustainability
- Shipyard capacity and newbuild prices
- Decommissioning and scrapping
- Fuel prices and availability
- Interest and freight rates



The main drivers for Wärtsilä's marine service business are:

- The size and age profile of the installed base
- Equipment running hours
- Customer specific spending priorities

Competitive landscape

As a result of our broad product and solution portfolio and global market presence, our field of competitors is extensive. It comprises several original equipment manufacturers (OEMs), including engine companies such as MAN Energy Solutions, Caterpillar, Rolls-Royce Power Systems, and HiMSEN, propulsion system manufacturers such as Schottel and Brunvoll, and environmental and auxiliary equipment providers like Alfa Laval. Competitors also include electrical and automation system suppliers, notably Siemens, GE, and ABB, fuel gas system providers, such as TGE Marine, navigation and communication system and fleet optimisation solution providers like Furuno and JRC, as well as companies with extensive offerings, such as Kongsberg. We hold a leading position in many of these areas, including also ship traffic control solutions and maritime simulators.

The main competition in maintenance services comes from independent service companies operating globally, and local players with a limited scope of offering, such as spare part traders, repair yards, local workshops, component suppliers for spare parts (non-OEM), and field service businesses.

We have earned broad recognition throughout the maritime industry as a proven supplier of innovative and sustainable technologies and software solutions. This, together with our extensive portfolio, gives us a unique opportunity to comprehensively address the environmental challenges of the maritime industry by providing a financially attractive path towards decarbonisation.

Marine markets in 2020

The economic fallout of COVID-19 has had a notable impact on seaborne trade and passenger transportation, affecting both the appetite for newbuild investments and demand for spare parts and maintenance activities across all segments.

Cruise has inevitably been one of the most severely challenged sectors, with global travel restrictions and 'no-sail orders' causing the majority of the fleet to be left idle for most of the year. The sharp decline in domestic and international travel also affected ferry services, although some recovery was seen towards the latter part of the year.

The negative impact of the pandemic on the energy markets has resulted in further cuts in offshore oil and gas exploration and production, as well as in a slowdown in the recent LNG sector expansion. The offshore wind farm industry, on the other hand, saw record investments and capacity start-ups in 2020.

The tanker market had an extraordinary second quarter of the year, driven by unprecedented demand for floating storage, but the subsequent downturn in oil trade and an easing of floating storage demand led to a winding down of earnings. The bulk carrier sector had a very challenging first half of the year due to weak Brazilian iron ore exports and a sharp fall in coal trade, but improvements began to filter through by mid-year. Container trade was initially severely hit by the COVID-19 crisis, on the back of widespread lockdowns disrupting the world economy, consumer activity, and supply chains, but later rebounded with average volumes returning to 2019 levels.

The appetite for scrubber retrofits or installations on newbuilds was limited by the narrow price spread between high- and low-sulphur fuels, which was caused by the turmoil in the global oil markets, and uncertainties related to the COVID-19 pandemic.

On the other hand, the decarbonisation of the shipping industry continued to accelerate, and the IMO's 2030 and 2050 targets for reducing GHG emissions remain high on the agenda. At the same time, restrictions on physical travel have further accelerated the adoption of digital technology, which enables secure remote monitoring and training during the pandemic. Furthermore, the uncertainty and economic squeeze set off by the pandemic have increased interest in fleet optimisation and performance management technologies that enable fuel and operating cost savings.

ENERGY

Focus on energy transition and flexibility

Wärtsilä's operating environment is influenced by the ongoing energy transition. A more sustainable energy infrastructure is emerging, driven by economics and climate policies. The past decade has witnessed growing investments in solar and wind energy, as these technologies have become the cheapest source for new bulk electricity in two thirds of the world. By 2030, solar and wind technologies are expected to become cheaper than existing baseload generation almost everywhere. The cost of energy storage technology has also plummeted. The storage market is expected to grow rapidly in the coming years, driven by economies of scale and technology development. In parallel, climate policies, such as tightening emissions legislation, are forcing the closure of ageing carbon-intensive energy sources, thus further encouraging the deployment of renewable energy.

Change in vessel contracting

-29%

Change in renewable electricity generation

7% (source: IEA estimate)

The intermittent nature of solar and wind generation is gradually beginning to impact the running hours of conventional thermal capacity designed typically for baseload operation. The role of power system flexibility has thus become a topic of growing importance, as it will be a key enabler of sustainable power systems in the future. Flexible gas-based generation and energy storage are the key solutions for meeting future power system reliability and flexibility needs. Power-to-X solutions will further support reaching the 100% share of renewables in power systems.

In emerging markets, electricity demand is increasing, along with economic growth and improving standards of living. Interest in renewable energy sources is also increasing rapidly as a result of lowering costs, but conventional thermal technology still plays a key role in power production in emerging countries. Demand is the highest for flexible technologies that can adapt to an increasing share of renewables in the future, thus enabling the most sustainable and affordable power systems.

Natural gas continues to be considered as a transition fuel towards more sustainable energy systems. In the developing world, the gas infrastructure is improving and replacing more carbon-intensive energy sources in baseload generation. On a global scale, the role of gas will change, as renewable energy sources will impact the running hours of baseload generation, and more system flexibility will be required. Flexible gas technology will have a key role to play in countries where the energy transition is more advanced, as well as in developing countries seeking future-proof baseload technology.

Hydrogen and synthetic fuels offer interesting possibilities for decarbonised power generation in the future. In a power system that incorporates renewables and battery storage, some of the excess renewable energy could be used in the production of green hydrogen to fuel power plants that balance the power system when cloudy or calm weather reduces the output of solar and wind power plants. Green hydrogen produced via electrolysis could be used as a fuel as such, or could be synthesised to facilitate its handling and use. Hydrogen and synthetic fuels are especially valuable in providing medium- and long-term flexibility, as they can be stored and transported when needed.

In addition to technology development, wider adoption of hydrogen in power or other sectors, such as industry or transportation, would require extensive investments in infrastructure.

Technological progress, along with increasing power system complexity with intermittent renewable energy sources, is paving ways to use new digital technologies. Remote monitoring, as well as recommendations and forecasting enhanced by artificial intelligence, are becoming more common in power plant operations. New data, along with platform-based business models and solutions, enable system-level integration and asset base optimisation throughout the entire lifecycle of the assets.

Market drivers

The global demand for energy solutions is mainly driven by:

- Economic growth, electrification, and improving standards of living
- Rapidly increasing use of intermittent renewables combined with the phase-out of inflexible thermal capacity
- The global decarbonisation agenda by governments and companies, and a tightening regulatory environment
- Gas supply infrastructure and gas availability, and emergence of carbon-neutral fuels
- Increasing use of data and digitalisation

The main drivers for Wärtsilä's energy service business are:

- The size and age profile of the installed base
- Equipment running hours

Competitive landscape

Wärtsilä's competitors in power generation comprise equipment manufacturers of internal combustion engine and gas turbine technologies. Wärtsilä is a market leader in medium-sized power plants with competitive technology, project management capabilities, and global service support. Some key competitors include MAN Energy Solutions, GE Power, and Siemens Energy.

As regards energy storage systems and optimisation, competition comes from other system integrator companies. Wärtsilä is an experienced

provider of balancing power with advanced energy management systems and unique engineering, procurement, and construction (EPC) capabilities. Competitiveness in this domain is determined by the ability to source storage technology cost competitively, the ability to provide energy system management solutions for the optimal integration of assets, and project management capabilities. Notable competitors in this market include Fluence and Tesla.

Competition within service activities is fragmented in nature. It mainly consists of customers conducting operations and maintenance themselves and local third-party service companies with a more limited scope of offering. In lifecycle solutions, competition comes from a few regional players capable of offering plant operational services. In asset performance management services, there are both new and more established competitors that provide software and analytics across industries, while some utilities are establishing these skills and knowledge in-house. Wärtsilä has the capabilities to ensure reliable and efficient operations of the installed base throughout the entire lifecycle of the assets, thanks to its global service network and extensive know-how and experience.

Energy markets in 2020

The COVID-19 pandemic and the resulting slowdown of economic activity and decline in energy demand negatively impacted the power sector. Inflexible baseload generation saw the biggest decline, but also the running hours of liquid and gas fuelled power plants came down. Uncertainty regarding the duration, development, and economic impacts of the pandemic caused customers to postpone investments in new power plant capacity. Site access constraints affected project deliveries and field service activities. The energy transition is expected to slow temporarily as a result of delays in project deliveries and investment decisions, cheaper fossil fuels, and the focus on containing the virus spread and mitigating its business impacts. Nevertheless, activity in the energy storage markets improved towards the latter part of the year, driven by the increasing need for short-term flexible capacity in power systems with a higher share of renewables. The allocation of financial stimulus packages by governments and monetary institutions to the energy sector should further support investments in green energy.



ANSWERING TO THE GROWING DEMAND FOR REMOTE SUPPORT

In 2020, we saw digital transformation take another step forward as the need for remote and virtual services accelerated due to the global COVID-19 pandemic. In response to restrictions related to travel and physical interaction, we expanded manned operations in Expertise Centres, launched the Assured Operations and Smart Support Centre services, and moved our simulator training to the cloud.

When the COVID-19 pandemic hit the world this past spring, our Expertise Centres in the Middle East and Asia were the first to respond by expanding to 24/7 manned operations. Wärtsilä's global network of Expertise Centres provides various support functions, including operational support, asset diagnostics, and condition-based maintenance planning for those marine and energy customers that have lifecycle solution agreements with Wärtsilä.

Answering to challenges brought on by the global state of emergency, digitally enabled remote expertise services support our customers in keeping their energy and marine installations running safely and smoothly. The aim is to improve customer satisfaction by diagnosing problems faster and more accurately, and by running more efficient service operations.

“For example, instead of arranging for an engineer to travel to a power plant site for troubleshooting, we can review power plant performance parameters from our Expertise Centres and provide

instant support and enable fast case resolution,” says **Markus Ljungkvist**, Vice President of Energy Services at Wärtsilä.

He adds that Expertise Centres optimise the performance of power plant assets by taking a holistic view of operations. Using a broad spectrum of data collected by sensors on-site, Wärtsilä can even evaluate the condition of certain installations in real time.

“Having the ability to support our customers remotely brings availability and reliability as well as a cost advantage. This is especially important for supporting plant operations in these times,” Ljungkvist says.

Reducing costs with remote support

In another attempt to react swiftly to the restricted access to normal field service expertise due to the pandemic, we launched the Assured Operations remote support service for Wärtsilä 4-stroke and 2-stroke engine customers in June. A similar range of services has previously been on offer to our Energy customers, available around-the-clock and ready to be mobilised in less than 24 hours. Support is delivered by the Expertise Centres via chat, video, and audio collaboration tools, and can be provided using a smartphone, tablet, or computer with a remote support application.

Similarly, our portfolio of Voyage products and solutions was further enhanced in 2020 with the launch of the global Wärtsilä Smart Support Centre, which offers fast remote service response. Faster response times lead to reduced costs when losses from downtime

are minimised and costly on-site visits are no longer necessary, as operational support is delivered via virtual service engineers.

Smart Support is designed to maintain all Wärtsilä Voyage equipment, including ship handling solutions, such as the Electronic Chart Display and Information System (ECDIS), simulation and training systems, and ship traffic control solutions. Support is available on remote troubleshooting, issue and emergency notifications, and software and license updates.

“The Wärtsilä Smart Support Centre connects our equipment and systems, for example ECDIS, simulators, and our Vessel Traffic System, allowing significant enhancement to our remote service capabilities. It gives an opportunity to really establish the status of the systems, to carry out remote software updating, and to enable the customer and Wärtsilä to work closely together on the systems,” says **Torsten Büssow**, Director, Wärtsilä Transas.

The Smart Support service was piloted together with the Danish shipping company J. Lauritzen AS, where the first experiences were positive:

“Firstly, the crew is aware that 95% of all errors can be rectified remotely, and they don’t need to arrange for a service engineer in the next port to solve the issue. This means that we have the equipment up and running at all times. Secondly, the number of e-mails to solve a technical or user-related problem goes down from 100 to 5, avoiding excessive communication,” says **Hans Elker Hansen**, Marine QA, Vetting & Nautical Manager at Lauritzen.

Training anytime, anywhere

Adding to Wärtsilä’s already extensive offering of remote and virtual services in other areas, 2020 saw the launch of a new

cloud simulation platform to help seafarer schools and shipping companies continue training despite travel restrictions and social distancing measures during the pandemic. Instructors and students are offered remote access without geographical limitations to Wärtsilä’s existing simulator products.

“For both training institutions and shipping companies, remote learning is a growing trend that is especially valuable in times like these. It is important that the training can continue with or without classroom attendance, the only difference being the delivery method,” says **Neil Bennett**, Director of Global Simulation Sales at Wärtsilä Voyage.

Bennett adds that considering the overall adaption of digital solutions, the Wärtsilä Voyage Cloud Simulation has already been successful in pushing the maritime industry into doing things differently and seeing real benefit in new ways of working.

“We don’t foresee e-training becoming the default way of operating in shipping, as assessments will still need to be undertaken at a physical location so that verifications are legitimate. However, with the evolution of cloud-based simulations, we are moving towards blended learning strategies, where training is carried out using a combination of services provided both remotely and on-site,” Bennett points out.

Enhancing efficiency and safety of maritime operations

During autumn 2020, several customers selected Wärtsilä’s Cloud Simulation solution as their online training platform. The first application of the technology in the US was supplied to the Massachusetts Maritime Academy (MMA), allowing cadets to continue receiving safe and effective navigational training despite restrictions imposed because of the COVID-19 pandemic.

“Wärtsilä’s Cloud Simulation solution solves our immediate needs to offer expanded online content due to COVID-19. It also gives us a long-term platform for simulation in blended learning that will allow MMA to continue leading the industry with innovative technologies for our students,” comments **John Belle**, Associate Professor at the Academy.

Digital learning is set to be a key training asset also for future-oriented shipping companies. Anglo-Eastern leads the way as the first global ship management company to implement the Wärtsilä Cloud Simulation Solution. With over 600 ships under management, Anglo-Eastern will use the cloud-based simulators for navigation, engineering, and liquid cargo handling training. The company aims to transform its ship management systems from separate analogue applications into smart, integrated enterprise platforms for the future.

“Cloud simulation represents an additional, complementary tool that fits well into our overall training strategy for our crew pool of more than 29,000 seafarers. Future officers will be working on more sophisticated navigation equipment, and regular training on simulators will become the norm, similar to the airline industry,” says Capt. **Pradeep Chawla**, Managing Director of QHSE and Training, Anglo-Eastern.

“By making remote training via cloud services both feasible and highly efficient, Wärtsilä is providing a valuable tool that can support training organisations in their development of blended learning strategies. The cloud system is a further example of our strength in applying smart technologies to deliver greater efficiencies for our customers,” Neil Bennett concludes.

STRATEGY

Wärtsilä’s purpose is to enable sustainable societies with smart technology. The demand for clean and flexible energy, and the need for efficient and safe transportation are increasingly affecting the way that customers operate. This forms the basis for Wärtsilä’s Smart Marine and Smart Energy visions.

Wärtsilä’s profitable growth ambitions are supported by its strong presence in key markets and a superior global service network. An integrated portfolio of services, systems, and products that covers customer needs throughout the full lifecycle positions Wärtsilä well to respond to the demand for energy efficient and innovative solutions. Emphasis is given to optimising performance through upgrades, modernisations, fuel conversions, and safety solutions, and to using data analytics and artificial intelligence to support customer business decisions. Connectivity and smart technology play a key role in the optimisation of assets, and in providing strategic input to customers in order to enhance their business growth. Asset management will drive future growth in lifecycle solutions and enable new “as-a-service” business models.

With its flexible production and supply chain management, Wärtsilä constantly seeks new ways to maintain high quality and cost efficiency – often in cooperation with customers and leading industrial partners. Investments in research and development, specifically in digitalisation, create a strong foundation for securing and strengthening the company’s position at the forefront of market innovation. Customer value creation through collaboration and knowledge sharing are also key components in Wärtsilä’s innovation activities.

This innovative culture, together with a constant emphasis on safety, diversity, and high ethical standards, attracts skilled and committed people and creates the basis for a high performing organisation. The focus on operational excellence identifies Wärtsilä as being easy to do business with, and drives increased productivity and efficiencies for its customers.

SMART MARINE

Wärtsilä’s aim is to lead the maritime industry’s transformation towards a Smart Marine Ecosystem. Building on the sound foundation of being a leading provider of innovative products, integrated solutions, and lifecycle services to the marine and oil & gas industries, Wärtsilä delivers new sources of value to customers through connectivity, digitalisation, and the use of smart technologies.

The maritime industry has ambitious environmental targets and is increasingly aware of the necessity of this transformation. Wärtsilä and other players across the industry are collaborating on introducing new technologies and cleaner fuels to accelerate the path towards decarbonisation. Further opportunities arise from eliminating major sources of inefficiencies, such as overcapacity, inadequate port-to-port fuel efficiency, and the time wasted waiting to enter ports and other high traffic areas.

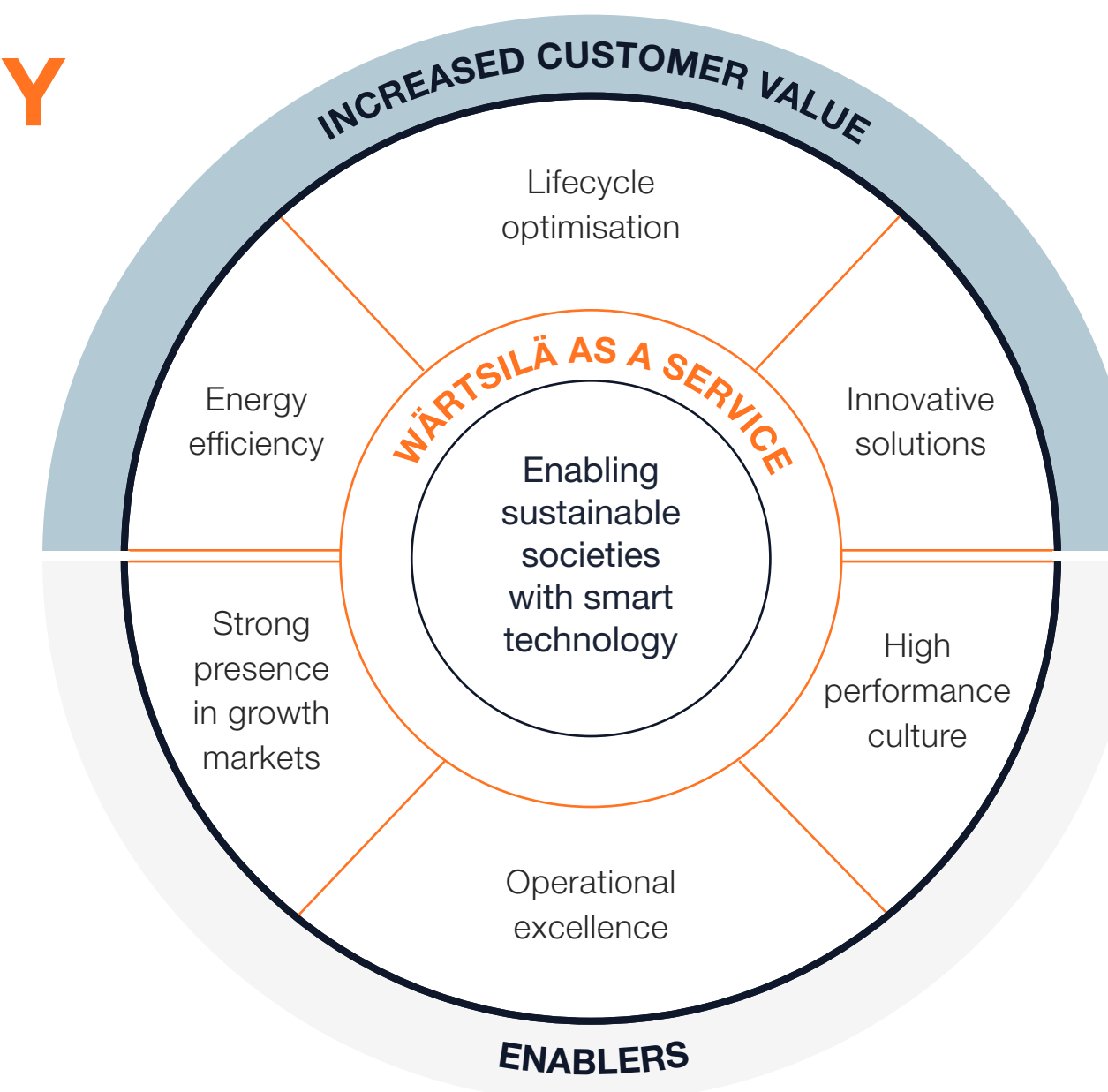
WÄRTSILÄ’S STRATEGY

SMART ENERGY

Leading the path towards a 100% renewable energy future

SMART MARINE

Leading the industry transformation towards a Smart Marine Ecosystem



Wärtsilä's three marine businesses, along with their customers and partners, are ideally positioned to achieve positive disruptive development:

- Marine Power creates a commercially viable path towards decarbonisation by providing fuel efficient power systems that can be upgraded throughout the assets' lifecycle to run on low-carbon and/or carbon-neutral fuels.
- Marine Systems develops technologies, products, and solutions related to the gas value chain, exhaust treatment, shaft line services, and marine electrical integrations. The aim is to enhance safety and energy efficiency, while lowering emission levels.
- Voyage provides the technology to optimise fleet performance and enhance the safety of operations through real-time ship-to-shore communication, connected navigation, and the provision of automation and smart autonomy solutions.

By applying smart technology and performance optimisation services, Wärtsilä delivers greater efficiencies, a minimised climate impact, and a higher level of safety to the shipping industry. This will result in more sustainable, safe, and profitable operations for ship owners and operators around the world.

SMART ENERGY

The energy landscape is in transition towards more flexible and sustainable energy systems, driven by the decreasing cost of new technologies. Wärtsilä's objective is to be its customers' most trusted partner in unlocking the value of an optimised energy transition by providing essential technologies, services, and solutions for sustainable, reliable, and affordable power systems.

Integrating renewables within power systems is increasing the demand for flexible power solutions, with flexible gas generation and energy storage at the forefront. Digitalisation throughout the industry brings new opportunities for predicting consumption and maintenance needs, and can improve competitiveness.

Wärtsilä is at the very core of future energy systems. Its flexible power generation solutions provide a unique combination of energy efficiency, fuel and operational flexibility, high reliability from peaking to baseload applications, and a readiness to adopt future synthetic and renewable fuels. The energy storage and advanced optimisation software offering provides further growth opportunities. With its broad range of high-quality energy services, Wärtsilä enhances the business performance of power generation companies by optimising power plant performance across the lifecycle. The goal is to secure customer investments with guaranteed power plant availability and reliability.

Wärtsilä aims to continuously develop optimal, environmentally sound, and commercially viable solutions for customers by focusing on its core competences: market understanding and modelling, system optimisation, technological leadership, engineering, procurement, and construction capabilities, and lifecycle support.

SUSTAINABILITY

Economic

Wärtsilä aims to meet shareholder and customer expectations, and contribute towards the well-being of society. This requires efficient, profitable, and competitive company operations. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

Environment

Wärtsilä's aim is to be a forerunner in sustainable innovation and furthermore reduce emissions in our customer's operations and in societies overall. Wärtsilä supplies smart technologies and services that help to mitigate climate change and protect our oceans and seas. We continuously work on achieving high environmental standards in our operations, and improving the environmental performance and efficiency of our products and solutions through R&D, collaboration, partnerships, and active engagement in ecosystems. In doing this, we help our customers and society at large to meet the goals of the tightening global environmental regulations and guidelines.

Social

We have high ethical standards and we care about the communities in which we operate. Our business operations and relations with our stakeholders are governed by our Code of Conduct. Wärtsilä is a responsible employer, and we seek to offer our employees an interesting and exciting workplace where openness, respect, trust, equal opportunities, and scope for personal development prevail. A further aim is to offer a hazard-free working environment to our employees and contractors, and to minimise the health and safety risks associated with the use of our products and services. Through effective supply chain management and continuous development, we strive to ensure that our values expressed in the Code of Conduct are promoted in our whole value chain.



READ MORE

ABOUT STRATEGY IMPLEMENTATION IN 2020
IN THE BOARD OF DIRECTORS' REPORT

CONNECTIVITY AND SMART TECHNOLOGY PLAY A KEY ROLE IN THE OPTIMISATION OF ASSETS.

FINANCIAL TARGETS

NET SALES

Target
Grow faster than global GDP.

Development
In 2020, net sales decreased by 11% to EUR 4,604 million.

PROFITABILITY

Target
The operating profit margin (EBIT%) target is 14% at the peak of the cycle. At the trough of the cycle, the target is to keep the operating profit margin above 10%.

Development
In 2020, comparable operating result was EUR 275 million, which represents 6.0% of net sales.

CAPITAL STRUCTURE

Target
Maintain gearing below 0.50.

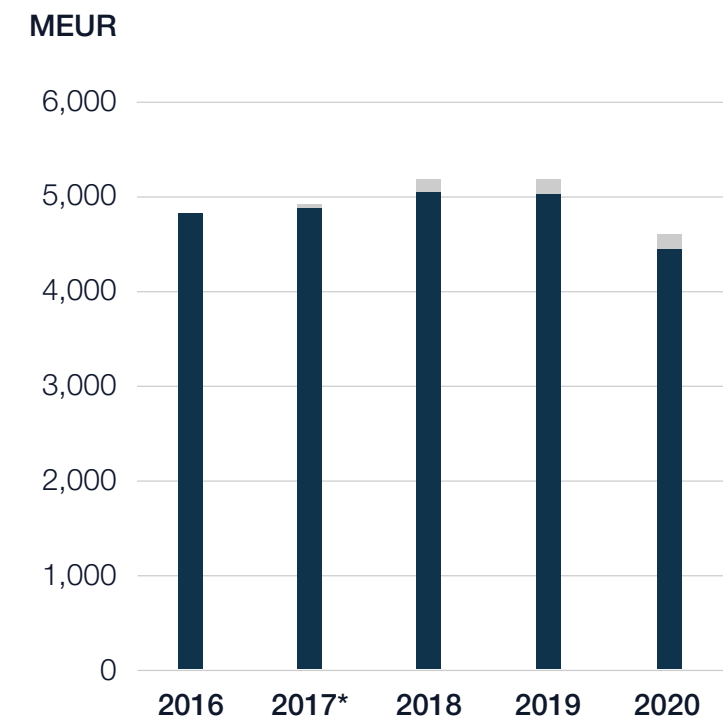
Development
In 2020, gearing was 0.18.

DIVIDEND

Target
Distribute a dividend of at least 50% of earnings over the cycle.

Development
The Board of Directors proposes that a dividend of EUR 0.20 per share be paid for the financial year 2020, representing 88.2% of operational earnings.

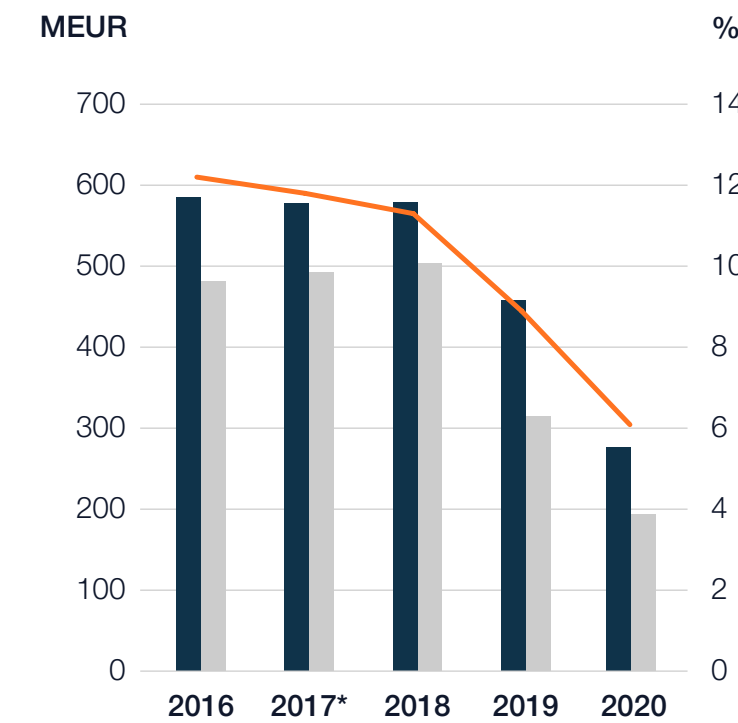
Net sales



■ Net sales
■ Cumulative new acquisitions

CAGR 2016–2020:
Wärtsilä's net sales -1.0%
World nominal GDP 2.5% USD denominated (source: IMF estimate as of October 2020)
* Restated due to IFRS 15

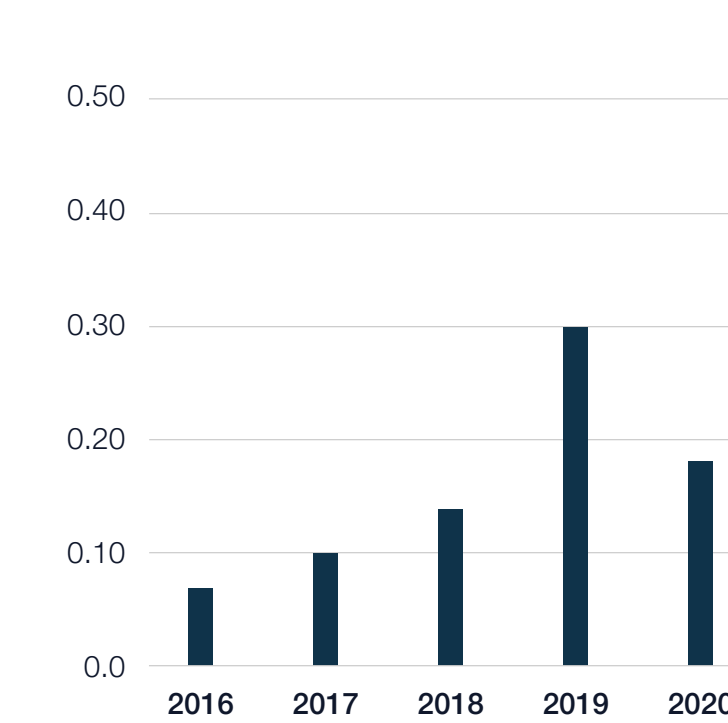
Result



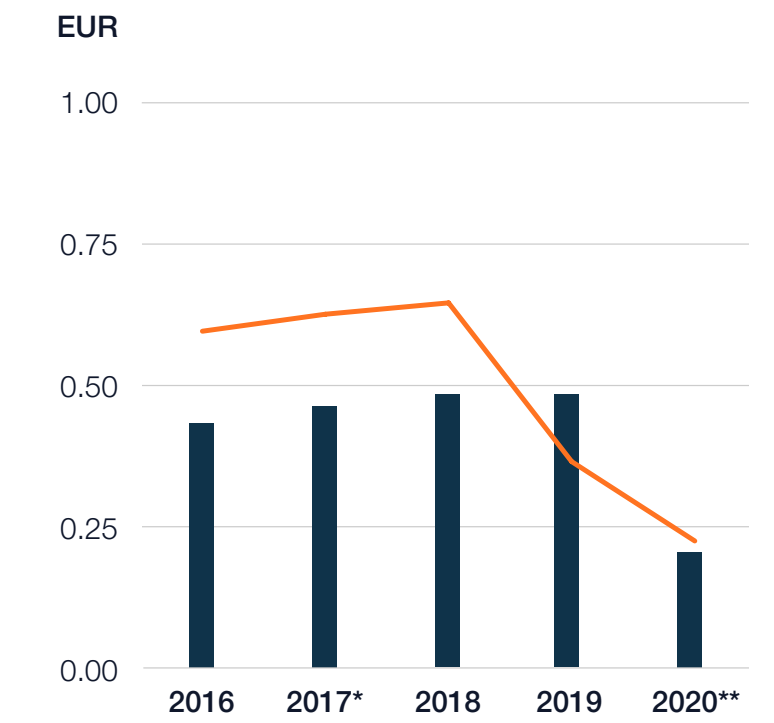
■ Comparable operating result
■ Profit before taxes
— Comparable operating result, %

* Restated due to IFRS 15

Gearing



Dividend/share, earnings/share



■ Dividend/share
— Earnings/share

* Restated due to IFRS 15
** Proposal of the Board
Dividend/share and earnings/share for 2016–2017 have been restated to reflect the increased number of shares.

SUSTAINABILITY TARGETS

SUSTAINABLE POWER SYSTEMS



Target
Contribute to the development of an affordable, reliable, sustainable and modern power system worldwide. Schedule: 2020

Development
In 2020, Wärtsilä launched the Wärtsilä Energy Transition Lab and its Atlas of 100% Renewable Energy, and collaborated with partners in new power-to-gas and Power-to-X research projects. Some 1,170 MW capacity of modern, highly efficient, and flexible gas and liquid fired engine power plants, as well as 375 MW of energy storage solutions, were sold. During the target review period 2017–2020, Wärtsilä has focused strongly on enabling the transition towards flexible and renewable power systems.

SMALL-MEDIUM SCALE LNG SOLUTIONS



Target
Become a global actor in the LNG value chain, by developing opportunities, creating solutions, and building infrastructure for clean-burning LNG to replace liquid fuel. Schedule: 2020

Development
During the target review period 2017–2020, Wärtsilä's LNG competences were focused on being an enabler for flexible, engine power plant projects and providing technology and lifecycle services for the entire gas value chain. In 2020, Wärtsilä had one ongoing LNG terminal project in Hamina, Finland.

DECARBONISATION OF TRANSPORT

Target

Contribute to the development of more sustainable transportation through gas technology, fuel flexibility, energy efficient technology, and voyage optimisation. Schedule: 2020

Development

In 2020, Wärtsilä conducted its first ammonia combustion tests and is extending its know-how in handling ammonia as a fuel as part of an EU-funded project. Wärtsilä also announced a partnership with Norwegian Grieg Edge to build the world's first green ammonia fuelled tanker by 2024, and formed an international coalition together with ten other members to accelerate the energy transition in the transport and logistics industries. During the target review period, the decarbonisation of shipping has been one of the main focus points of Wärtsilä's strategy.

CLIMATE CHANGE

Target

Reduce CO2 emissions from vessels by more than 300,000 tons annually with the help of Eniram solutions. Schedule: 2020

Development

During the target period 2017–2020, on average the estimated annual reduction in CO2 emissions was approximately 191,000 tons. In 2020 the reduction was estimated to 158,000 tons due to lower shipping activity caused by the COVID-19 pandemic.

CLIMATE CHANGE

Target

Reduce greenhouse gas (GHG) emissions from gas engines by 15% from 2015 levels by 2020. Schedule: 2020

Development

GHG emissions from gas engines were reduced by 8.6% from the baseline year. During 2020, the low load methane emissions from Wärtsilä 46DF and 34DF engines were reduced by 27–61% compared to the previous versions of these engines. However, due to the calculation method used, low load improvements are not included in the end result.

WELL-BEING AT WORK – CAREER

Target

Establish a balance between external and internal recruitments, with more than 50% of the open vacancies filled from the internal applicant pool, including promotions and lateral moves. Schedule: 2020

Development

In 2020, 58% of open vacancies were filled through internal selections for job levels 3 and up, and 42% through external selections. On average, 52% of the open vacancies were filled internally during 2017–2020. The target was achieved in 2019 and 2020.

PERSONNEL DEVELOPMENT

Target

Reach 100% coverage for development discussions. Schedule: 2020

Development

By the end of 2020, altogether 91% of the company's employees had completed development discussions. The annual average coverage during 2017–2020 was 93.6%, ranging from 91% to 96%.

DIVERSITY

Target

Increase the share of female employees to 20%. Schedule: 2020

Development

In 2020, the share of female employees was 17%, which was below the target. Wärtsilä will continue its Diversity and Inclusion programme to drive an inclusive corporate culture.

ETHICAL BEHAVIOR

Target

Ensure commitment to the Code of Conduct throughout the organisation (with a Code of Conduct training coverage of 100%). Schedule: 2020

Development

At the end of 2020, the Code of Conduct training coverage was 96% of all employees. The average annual training coverage during the target review period was 92.4%, ranging from 89% to 96%.

OCCUPATIONAL SAFETY

Target

Reach the long-term goal of zero injuries. Schedule: 2020

Development

In 2020, the corporate lost-time injury frequency rate (LTIF) was 2.03. This was slightly above the annual target of 1.60, but nevertheless represents a 10% improvement compared to 2019 (2.25). 2020 was an exceptional year and our highest priority was to protect our employees against COVID-19. Wärtsilä established global and local crisis management teams to prepare and implement pandemic prevention actions and control plans. Our organisation also continued applying traditional protective safety measures. As a highlight, the number of management safety walks, which were mostly carried out virtually, increased by 4%, and near miss/hazard reporting by 20% compared to 2019.

ENERGY SAVINGS

Target

Reduce energy consumption by at least 7% in terms of absolute consumption (GWh) from 2015 levels by 2025. Schedule: 2025

Development

By the end of 2020, energy savings of 8.3 GWh were achieved, representing 27.7% of the final 2025 target.

SUPPLIER MONITORING

Target

Reach the following rating coverage for suppliers:

- 96% of direct global supplier spend rated
- 70% of indirect supplier spend rated
- 80% of other sourcing spend rated

Schedule: 2020

Development

In 2020, the rating coverages were:

- 94% of direct global supplier spend (target achieved in 2018 and 2019)
- 74% of indirect supplier spend (achieved in 2017–2020)
- 62% of other sourcing spend (achieved in 2018)

CREATING VALUE

WÄRTSILÄ'S ASSETS IN VALUE CREATION

R&D and innovation

- R&D expenditure EUR 153 million
- Approx. 2,600 patents and patent applications
- Data assets and analytics
- Data-driven co-creation

Global presence

- 258 sales and service units
- 9 sizeable manufacturing sites (incl. joint ventures)
- Approx. 1,200 global direct suppliers

People & Culture

- A global workforce of approx. 18,000 employees in over 70 countries
- Driving our purpose and values – purpose and values index* 80%
- Committed to our customers – customer orientation index* 70%
- Fostering continuous learning and development
 - Development discussion completion rate 91%
 - 19,741 employee training days
 - 414 leadership training days

Towards a 100% renewable energy future

- 180 countries and power systems modelled worldwide
- 25% of engine MWs ordered in 2020 backing up renewables
- Approx. 800 MWs of energy storage and optimisation systems installed globally
- 7 Power-to-X cooperation projects

Contributing to sustainable shipping

- Over 2,600 dual-fuel engines in operation
- 6 hybrid upgrade projects sold in 2020
- Over 50 energy saving devices for propulsion machinery sold in 2020
- 100% growth in vessels connected to Wärtsilä Voyage's digital solutions
- 158,000 tons of CO₂ emissions reduced with Eniram solutions in 2020
- 10 future marine fuels cooperation projects

Creating shareholder value

- Profitable growth
- Earnings per share EUR 0.23
- Proposed dividend per share EUR 0.20
- Return on equity (ROE) 5.8 %

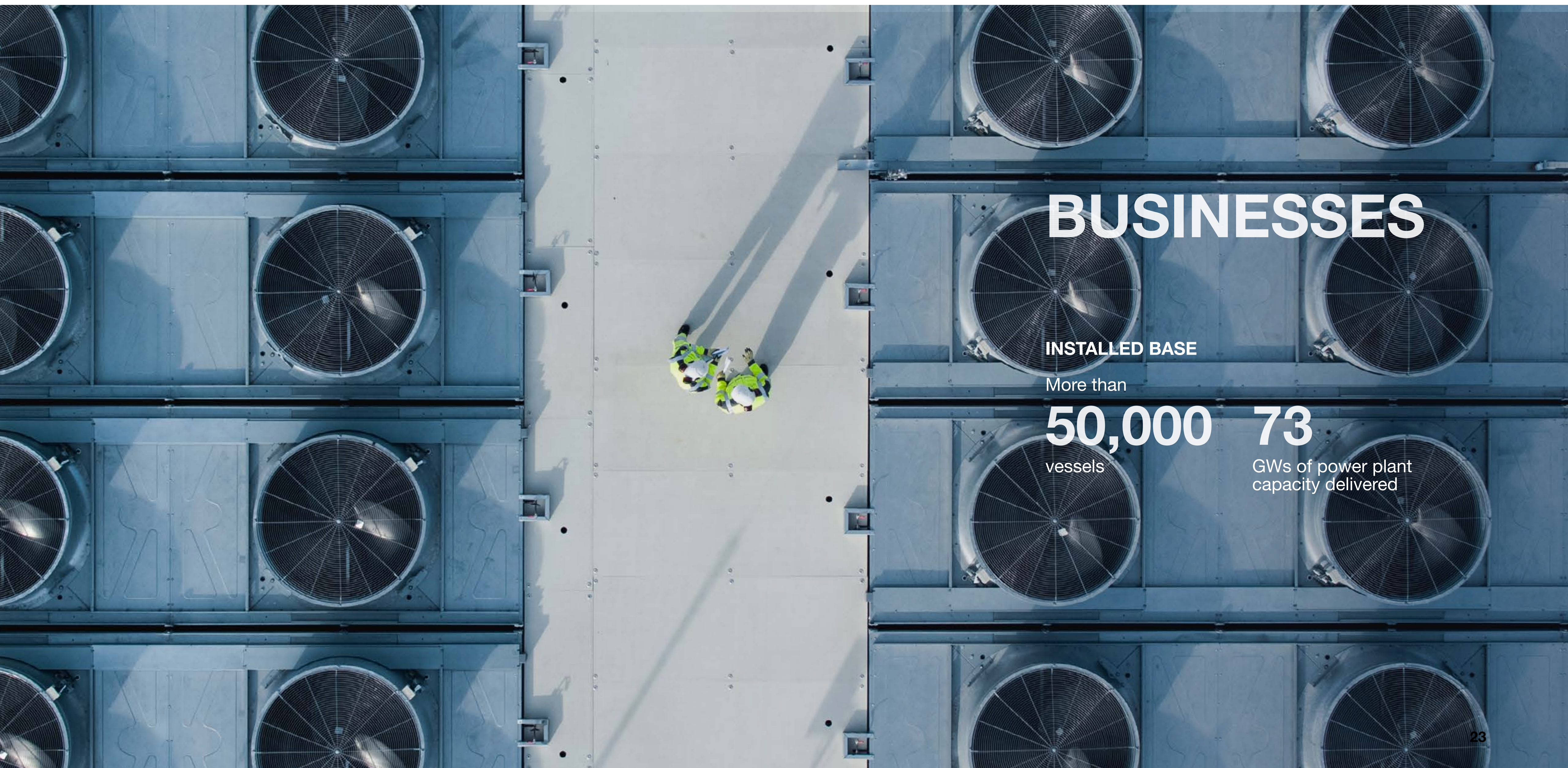
Enhancing wellbeing & safety

- Employee engagement index* 73%
- Leadership index* 73%
- Wages, salaries, and other employment expenses EUR 1,192 million
- Equal and competitive remuneration
- LTIF 2.03

Contributing to society

- Expanding the access to sustainable and reliable electricity
- Decarbonising transportation
- Collaboration with over 20 universities
- Donations EUR 563 thousand

* Based on an internal employee survey



BUSINESSES

INSTALLED BASE

More than

50,000

vessels

73

GWs of power plant capacity delivered



WÄRTSILÄ MARINE POWER

Wärtsilä Marine Power has a strong position in the maritime industry, with over 57,000 of its products installed on more than 19,000 vessels. We are a market leader in medium-speed engines with a 67 GW installed base and 17.5 GW under service agreements, as well as a frontrunner in alternative fuels and fuel flexible technology, with over 2,600 dual-fuel engines in operation and more than 45,000,000 running hours collected in the field. This extensive experience combined with our broad technology and service offering sets us in a unique position to create a commercially viable path towards decarbonisation by providing fuel efficient, integrated power systems that can be upgraded throughout the asset's lifecycle to run on low-carbon and/or carbon-neutral fuels.

WE SERVE VARIOUS CUSTOMER GROUPS DURING THE ENTIRE LIFECYCLE OF THEIR VESSELS

Marine Power's customer base covers all the main shipping segments, including traditional merchant vessels, gas carriers, cruise ships and ferries, as well as naval and special vessels. In the oil and gas industry, we serve offshore installations and their support vessels.

During the vessel lifecycle, our customers include ship owners, ship operators, ship management companies, and charterers, who have a stake in:

- The planning and execution of operations, securing safety and achieving competitive operating costs
- The planning and execution of maintenance to maximise the uptime of assets
- Upgrading and retrofitting vessels to comply with regulations and GHG emission targets

Ship owners' decision-making is impacted by freight rates, interest rates, and the capital and operating costs of their ships. Sustainability, fuel flexibility, and the transition towards green fuels are also increasingly important factors. The decision-making process is influenced by cargo owners and charterers, who are keen on ensuring that their operations are safe, environmentally compliant, and fuel efficient. In addition, ports have a role to play, having become more prominent in their focus on addressing emissions and safety.

OUR VALUE PROPOSITION EXTENDS FAR BEYOND ANY TECHNOLOGY FEATURE

Our market presence, expertise, and product offering enable us to understand the needs and requirements of ships' power train systems and their operation.

Development in 2020

Order intake, MEUR

1,737

Net sales, MEUR

1,748

Comparable operating result, MEUR

137

Comparable operating result, %

7.8

Within a single vessel, new or existing, we provide power supply and propulsion technologies and services that enable efficient and safe operations throughout the lifecycle of the vessel. Our offering comprises engines, propulsion solutions, electrical management and power management systems, hybrid solutions, selective catalytic reducers, fuel gas supply systems, as well as a broad range of lifecycle services.

We deliver innovative and competitive solutions efficiently and with high quality, while our lifecycle service offering is supported by an unmatched global service network and technical support. We identify, plan, and perform all maintenance and upgrades for Marine Power equipment, the aim being to reduce emissions, maximise asset utilisation, enable safe operations, and achieve compliance with regulations, while minimising fuel and maintenance costs.

We facilitate the adoption of cleaner fuels, demonstrating our undisputable leadership in fuel flexibility. In addition to being a market leader in dual-fuel combustion engines, the most flexible power solution available today, we are researching various alternative fuels, including bio and synthetic methane, ammonia, methanol, hydrogen, and biofuels. Our research draws on the unparalleled experience we have already gained building engines as well as supply and storage systems for a wide range of fuels, including LNG, LPG, biodiesel, methanol, and volatile organic compounds. We focus on offering an upgrade path to

our customers, to hedge their business risks related to the uncertainty around future fuels. With a limited exchange of components, Wärtsilä dual-fuel engines will allow burning clean fuels that are expected to become available over the coming years. This enables ship owners to already prepare for the use of new fuels on vessels built today.

Marine Power has a solid record in guaranteeing the performance of customers' assets. Our recent investments in technology developments – from equipment to data collection, connectivity, analytics, and insights generation – give us the unique ability, not only to detect anomalies in equipment performance, but to promptly address such anomalies with needed actions.

In short, we enable more sustainable, safe, and profitable operations for ship owners and operators around the world. Marine Power is recognised as a proven supplier to the maritime industry of innovative and sustainable technologies across its portfolio. We are, therefore, uniquely positioned to comprehensively address the challenge of emissions from shipping by providing a financially attractive path towards decarbonisation.

FINNLINES ORDERS WÄRTSILÄ ENGINES AND HYBRID SYSTEMS FOR ITS TWO NEW ECO-FRIENDLY FERRIES

Wärtsilä will supply the engines and a range of its electric solutions for two new ferries being built for Finnlines. The two 'Superstar' vessels will operate between Finland and Sweden across the Baltic Sea, and will feature Wärtsilä 46F main engines, thrusters, and a state-of-the-art electric package. The ferries are designed to incorporate the latest technical and environmental concepts, setting new standards for sustainability and energy efficiency.



WITHIN A SINGLE VESSEL, NEW OR EXISTING, WE PROVIDE POWER SUPPLY AND PROPULSION TECHNOLOGIES AND SERVICES THAT ENABLE EFFICIENT AND SAFE OPERATIONS THROUGHOUT THE LIFECYCLE OF THE VESSEL.

WÄRTSILÄ MARINE SYSTEMS

Wärtsilä Marine Systems comprises four individual business units with full lifecycle ownership of their respective products and solutions, which are sold for both newbuild and retrofit applications.

EXHAUST TREATMENT DELIVERING LEADING ABATEMENT TECHNOLOGIES

Wärtsilä Exhaust Treatment supports sustainable societies by providing the most advanced abatement technologies for the marine industry. Wärtsilä is the market leader in sulphur oxide (SO_x) abatement technologies, and in the development of abatement technologies that go beyond the current marine sector regulatory framework.

Wärtsilä's exhaust gas cleaning technology is an economical and environmentally sound solution for complying with both existing and new rules and regulations. Wärtsilä's systems are suitable for both newbuilding and retrofits for vessels having either 2-stroke or 4-stroke engines, as well as for oil-fired boilers. Wärtsilä has the largest installed base and the broadest product portfolio among all scrubber suppliers. The company has a dedicated test laboratory enabling product optimisation for reliability, as well as for ease of operation and installation. Wärtsilä's offering comprises exhaust gas cleaning solutions across all power ranges for the marine industry, with different types of designs suitable for various vessel segments. All of these designs can be utilised for open loop, closed loop, and hybrid systems.

Development in 2020

Order intake, MEUR

539

Net sales, MEUR

808

Exhaust Treatment's main customer segments are the traditional merchant sub-segments, such as tankers, bulkers, and container vessels, as well as cruise ships, ferries, and ropax vessels. The key value proposition across all customer segments is based on Wärtsilä's technological and innovation leadership, its broad product portfolio, and the capability to deliver customised solutions. In addition, leading lifecycle services and digital solutions that allow customers to monitor the performance and emissions of their vessels remotely have become increasingly important.

GAS SOLUTIONS SUPPORTING THE GAS VALUE CHAIN

Wärtsilä Gas Solutions is a market leader in innovative systems and lifecycle solutions for the gas value chain, with the aim of enhancing energy efficiency and promoting decarbonisation. With a focus on customer needs and the ability to adapt and innovate, Gas Solutions has been able to maintain its market leader position within many of its product segments, despite operating in a highly competitive market.

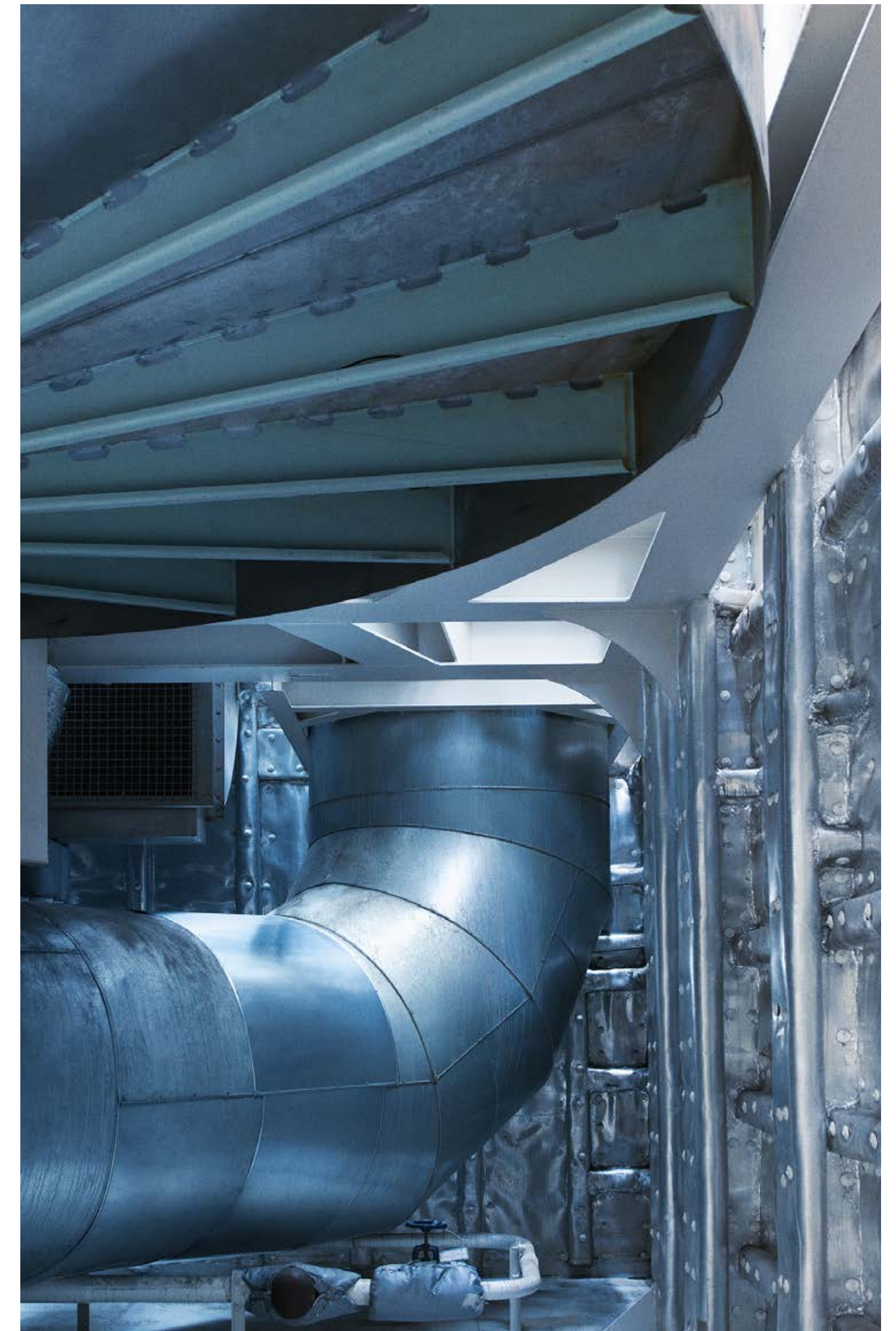
Gas Solutions is a market leader in providing turnkey solutions for biogas and natural gas upgrades and liquefaction, and is the world's largest supplier of complete cargo and fuel handling systems for small- and medium-sized LNG shuttle and bunkering vessels, multi-gas carriers, as well as ethylene/ethane and LPG carriers. Another world leading position is in the supply of volatile organic compounds (VOC)

Comparable operating result, MEUR

83

Comparable operating result, %

10.3



recovery systems, which utilise VOC as fuel and result in zero emissions. Gas Solutions has the most extensive boil-off gas reliquefaction reference list and portfolio of LNG regasification technologies that represent an industry benchmark in terms of energy efficiency, robustness, and operational flexibility. The offering also includes inert gas generators for tankers and gas carriers, multi-inert systems, and fuel gas systems which ensure an optimal atmosphere in cargo tanks and pipes to minimise the risk of explosion, rapid gas release, and cargo changes. Gas solution services and lifecycle solutions cover all types of gas plants, and include spare parts, maintenance, upgrades, and technical support, such as remote monitoring and the performance optimisation solution Wärtsilä Operim.

The main markets comprise gas handling in seaborne transportation applications (storage, fuel, transfer, and boil-off gas management), gas-to-power, liquefaction, and biogas solutions. Wärtsilä's solutions bring carbon neutral or transition fuels to the market and minimise emissions from the gas infrastructure. In so doing, Wärtsilä helps customers on the journey towards a sustainable future through a focus on lifecycle support, innovation, and digitalisation.

MARINE ELECTRICAL SYSTEMS OFFERING COMPREHENSIVE ELECTRICAL TURNKEY SOLUTIONS

Wärtsilä Marine Electrical Systems (MES) is an integrator of all electrical systems onboard ships. MES offers electrification solutions, and assumes responsibility for the design, procurement, installation, and commissioning of the entire electrical network, as well as for the power distribution, lighting, and other key elements. With its advanced engineering tools, MES forms an integral part of customers' design and building processes from early planning until the delivery of the vessel.

With its team of system and integration experts, along with the proven ability to execute large projects, MES offers flexibility and risk mitigation. Furthermore, MES provides onboard and maintenance services to the ship owner during the lifecycle of the vessel.

The main customer segments of MES are navy, special vessels, and yachts. These markets focus on competence and reliability, and are characterised by long-term partnerships.

SHAFT LINE SOLUTIONS HAS THE MOST COMPREHENSIVE PRODUCT PORTFOLIO IN THE INDUSTRY

Wärtsilä Shaft Line Solutions (SLS) is based on three core value propositions: zero environmental emissions, lifecycle efficiency to enable minimised downtime, and design excellence for withstanding even the most extreme conditions.

SLS holds the most comprehensive product portfolio in its range in the industry, providing complete integrated shaft line solutions comprising stern tubes, seals, bearings, hydraulic couplings, as well as water and oil quality systems. Complete aftermarket services include repairs, retrofits and upgrades, spare parts, field services, and underwater diving services. The long history of reliably minimising the downtime of customers' assets is increasingly based on the use of remote monitoring to detect changes in the equipment's operating conditions. This mitigates the risk of requiring emergency dry-docking.

The SLS customer base covers all the main marine segments: traditional merchant vessels, cruise and ferry, special vessels, and navy.

WÄRTSILÄ'S NEW COMPACT RELIQ SOLUTION SELECTED FOR TWO NEWBUILD LNG CARRIERS

Wärtsilä's Compact Reliq reliquefaction plant, introduced during the year, will be installed in two new LNG carrier vessels being built for Norway-based Knutsen OAS Shipping. Designed to reliquefy boil-off gas and keep cargo cool under all operating conditions, the solution allows a portion of the gas to be used as fuel for the vessel, while the excess can be sold as part of the LNG cargo. The compact design of the solution enables it to be installed on existing vessels without extensive modification work. Remote monitoring and online operational support as part of Wärtsilä's Operational Performance Improvement and Monitoring (Operim) solution are also included in the order.



WÄRTSILÄ MARINE SYSTEMS COMPRISES FOUR INDIVIDUAL BUSINESS UNITS WITH FULL LIFECYCLE OWNERSHIP OF THEIR RESPECTIVE PRODUCTS AND SOLUTIONS.



WÄRTSILÄ VOYAGE

Wärtsilä Voyage provides a unique integrated solutions portfolio that delivers real benefits to maritime stakeholders and vessel classes across the globe. By combining bridge systems, cloud data management, data services, decision-support tools, automation, fuel optimisation, simulation systems, and access to real-time information, shipping operations can be made smarter and more efficient. We ensure that not only do customers around the world reap the full benefits of the latest technological advances, but they also play a key role in contributing to a safer and more sustainable shipping future.

DIGITALLY CONNECTING THE MARINE INDUSTRY

Voyage has one of the maritime sector's largest installed bases and offerings of navigation, automation, fleet optimisation, simulation and training solutions, as well as ship traffic control systems. We serve all the main market segments, including cruise, ferry, merchant, and navy, as well as non-vessel segments, such as port authorities and maritime institutes, both supplying solutions for newbuilds and retrofitting existing vessels.

This broad portfolio of smart technology has positioned us to lead the marine industry's transformation to become digitally connected across the entire value chain. Our aim is to be the first partner of choice for

owners, operators, and shipyards in their efforts to ensure efficient, safe, and cost-efficient marine operations. Our solutions help these stakeholders make every sea voyage smarter and greener.

The technology offered by Voyage further enables our customers to achieve greater control, reduced operating costs, and improved safety over the movements of their vessels in order to optimise sailing routes, thereby reducing fuel consumption and lowering emission levels. Supported by our real-time, transparent data collection and monitoring, customers can leverage the insights provided to operate more safely and efficiently with less downtime. Our growth strategy is based on innovative product development, system integration, connectivity, remote operations, and cyber security. To date, we have supplied:

- 5,000 vessels with integrated navigational bridges
- 10,000 vessels with Electronic Chart Display and Information Systems (ECDIS)
- 12,000 vessels with automation systems
- 1,000 vessels with fuel monitoring capability
- 5,500 simulators in maritime training facilities around the world
- 1,500 pilots with our pilot personal unit
- 300 ports with smart port operating solutions

Development in 2020

Order intake, MEUR

262

Net sales, MEUR

248

Comparable operating result, MEUR

-41

Comparable operating result, %

-16.5

FLEET OPTIMISATION REDUCING COSTS AND EMISSIONS

Fleet optimisation technologies are increasingly being accepted as fundamental to the global requirement to reduce operating costs and comply with environmental regulations. Although oil prices are currently depressed, the need to decrease fuel costs over the long-term is viewed as necessary to remain profitable, while shipping is challenged to adopt cleaner energy options in effort to halve its emissions of greenhouse gases by 2050. Through the development of innovative concepts and smart technology, we are playing a key role in supporting our customers to achieve greater efficiencies in the area of environmental performance.

The emphasis of our approach is on eliminating wasteful inefficiencies, both in fleet operations and in port authority activities. One of the main sources of such inefficiency is the time wasted by ships waiting to enter ports. In addition to being unproductive, sitting at anchor wastes fuel and increases exhaust emission levels. Our development of a Just-in-Time (JIT) arrival solution overcomes this inefficiency by adjusting sailing speed to coincide with the recommended time of arrival (RTA) given by the port. For the port authority, JIT arrivals reduce congestion, which increases safety and enables more efficient operational planning.

The Wärtsilä Navi-Port solution is one enabler of JIT arrivals. Navi-Port is a digital platform that connects a ship's navigation system to the port in order to coordinate arrival schedules. The system works in tandem with our Fleet Operations Solution (FOS), which calculates the optimal route for the vessel.

Wärtsilä FOS unites all navigational processes and data on a single platform, enabling the crew and the operations centre to work as one. The advanced software allows real-time exchange of information in a secure environment to make sure that the ship arrives to its destination safely, on time, and with maximum fuel efficiency.

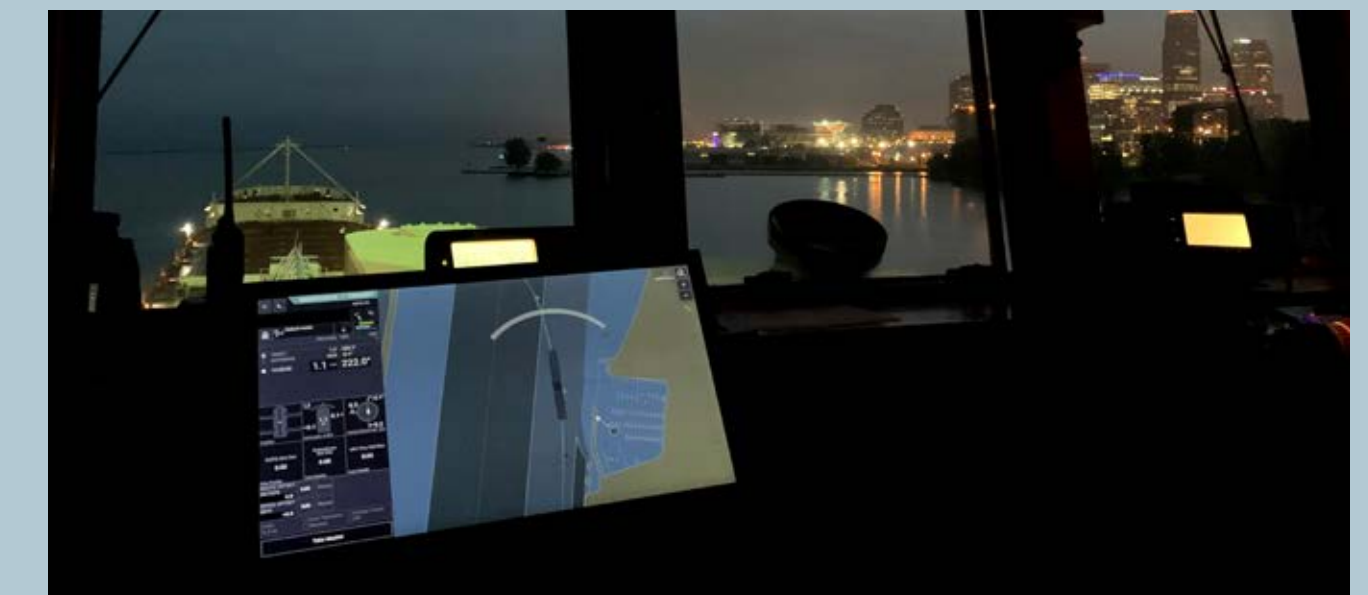
TOWARDS AUTONOMY

We employ a stepwise strategy to enable autonomous or semi-autonomous shipping, which entails bringing together tools using automation capabilities, navigation systems, and intelligent decision-making systems to assist the crew with challenging operations such as harbour entry, docking, or quay-to-quay transit. Our current offering of SmartSensor and SmartMove suites of solutions will be augmented further during 2021 to smooth the ongoing transition to a new digitised future of shipping.

At the core of our strategy to lead this transition is keeping pace with customer expectations and delivering real value through the development of new smart technology. The operational efficiency of customers' fleets is constantly increased through solutions and the latest automation tools that facilitate decision-making, reduce maintenance downtime, and eliminate wasteful practices. We support the move towards different degrees of autonomous shipping because it is seen as a key means for boosting efficiency, safety, environmental sustainability, and overall operational performance.

WÄRTSILÄ SMARTMOVE SUITE REDEFINES CONTROL FOR THE AMERICAN STEAMSHIP COMPANY

Wärtsilä Voyage's SmartMove Suite features the industry's most advanced sensors and high-accuracy ship control systems, effectively taking the concept of automated dock-to-dock operations to the next level. Fully retrofittable, the suite improves safety, efficiency, and productivity on the water. The first order was placed by American Steamship Company (ASC), and was installed in March 2020 on the MV American Courage, now the largest ship ever capable of performing automated docking and dock-to-dock sailing operations.



OUR AIM IS TO BE THE FIRST PARTNER OF CHOICE FOR OWNERS, OPERATORS, AND SHIPYARDS IN THEIR EFFORTS TO ENSURE EFFICIENT, SAFE, AND COST-EFFICIENT MARINE OPERATIONS.

WÄRTSILÄ ENERGY

Wärtsilä Energy’s solutions provide the best means of support to power systems by offering the highest degree of flexibility, thereby facilitating the design of renewable power systems while minimising costs. These solutions enable the transition to modern, sustainable, reliable, and affordable low-carbon power systems, with solar and wind generation replacing inflexible baseload generation. This transition represents the biggest growth opportunity for our flexible energy solutions and value-added services. In markets where the energy transition is still to come, our solutions provide efficient, reliable, and flexible baseload operations, which can be shifted to balance renewables in the future. Wärtsilä has delivered 73 GW of power plant capacity in 180 countries around the world, including 80 energy storage systems installed.

SERVING THREE MAIN CUSTOMER SEGMENTS

Our three main customer segments in the energy markets are utilities, independent power producers (IPPs), and industrial customers.

Utilities supply electricity, heat, and gas to residential, commercial, and industrial end users. They invest in various types of power generation and energy storage assets to ensure adequate load coverage, and to provide the right palette of cost-effective, reliable products and services for their customers.

IPPs are financial investors investing in power generation and energy storage assets. They sell the generated power either to utilities or directly to end customers. Their investments are return-driven, and as with utilities, their technical requirements are application-driven.

Industrial customers are mainly private companies with energy intensive production processes. By investing in captive power, they are able to achieve lower energy costs and be prepared for any grid reliability issues, thus ensuring security of supply. We serve the top end of this customer group, i.e. large industries requiring a relatively high electrical load, such as cement factories and mining operations.

AN OFFERING BASED ON FLEXIBILITY AND LIFECYCLE SUPPORT

Our offering comprises flexible power plants, energy management and storage systems, as well as lifecycle services that enable increased efficiency and guaranteed performance.

The flexible power plants that we offer are tailored according to specific customer requirements, utilising modular products and services. The delivery scope ranges from equipment deliveries to complete engineering, procurement, and construction (EPC) packages, backed

Development in 2020

Order intake, MEUR

1,653

Net sales, MEUR

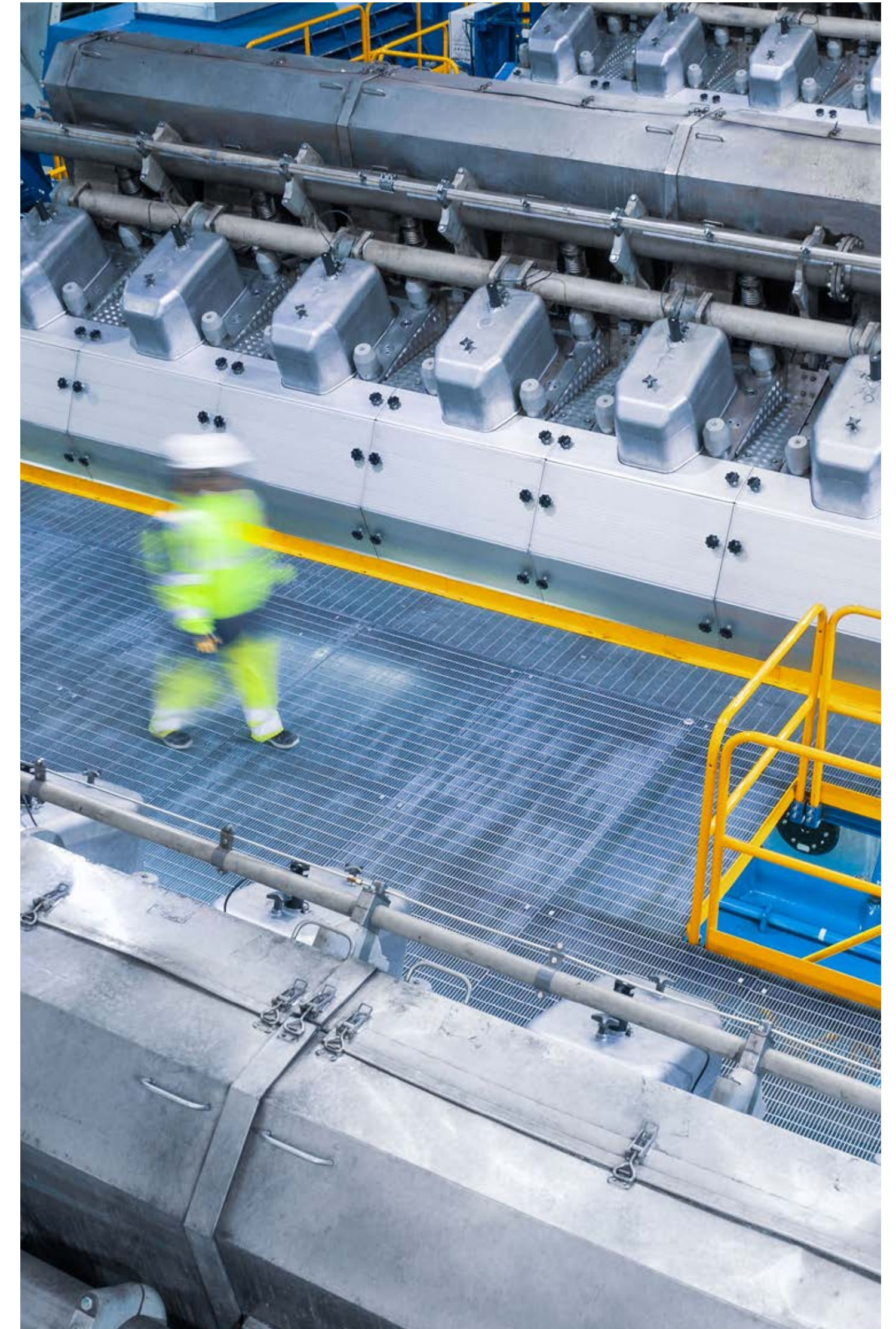
1,620

Comparable operating result, MEUR

101

Comparable operating result, %

6.3



by superior project management capabilities and lifecycle support. Our power plants are based on internal combustion engine technology and can be coupled with energy storage.

Our flexible gas technology provides an excellent value proposition to balance intermittent renewables. Engine power plants are able to ramp up and down, and start up and shut down continuously based on specific needs, while maintaining high efficiency. Operational flexibility, high reliability, and availability make the technology ideal for securing system stability.

The engine portfolio consists of gas, liquid, and dual-fuel engines that meet even the strictest global environmental standards. We are currently exploring the next phase of the energy transition with, for example, Power-to-X technologies that help convert solar and wind energy into hydrogen and synthetic fuels. These fuels will, in the longer term, enable emission-neutral power plants. The flexibility of our engine technology makes it suitable for operation with various future carbon-neutral fuels, such as hydrogen, bio fuels, and synthetic fuels. We are investing heavily in their continued development and testing procedures. Wärtsilä engines can already today run on bio and synthetic gases as well as on hydrogen blends, and the current installed engine fleet can be retrofitted to run on new fuels when needed. We are also testing pure hydrogen operation, and are preparing to bring hydrogen engines to the market when demand emerges.

Our energy storage and optimisation solutions can be combined with power generation solutions, or used as stand-alone solutions as part of a broader customer portfolio. These energy storage solutions are among the most cost-competitive and flexible for providing short-term response, ranging from milliseconds to a few hours. An energy storage system supplied by us typically consists of modular hardware assets and an energy management system. The sophisticated energy management system GEMS controls energy storage as well as renewable and thermal generation assets at increments of 100 milliseconds, utilising machine learning and historic and real-time data

analytics to calibrate the type of generation needed at any specific time. GEMS helps customers manage the additional layer of complexity created by renewable assets in an optimal way. As the energy transition proceeds and customers incorporate more renewables into their portfolio, the need for optimisation services is set to grow.

Wärtsilä provides a broad range of solutions and services that enhance the lifecycle business performance of power generation companies. Lifecycle solutions encompass performance and maintenance management as well as operational expertise, which together lead to safe, reliable, and environmentally sustainable operations. Our solutions are based on the latest digital technologies, such as advanced data analytics and artificial intelligence, combined with our vast power generation knowledge and expertise. The solutions range from comprehensive lifecycle solutions for optimised operations and guaranteed performance, to conversions and lifecycle upgrades, as well as maintenance services and spare parts.

WÄRTSILÄ GRIDSOLV QUANTUM ENERGY STORAGE SYSTEM HELPS LOWER U.S. CITY'S ELECTRICITY COSTS

In October 2020, Wärtsilä launched GridSolv Quantum, a fully integrated modular energy storage system that enables the rapid deployment of cost-effective energy storage. It is 95% smaller than standard storage models, and is the first such solution to qualify under NFPA 855, the highest standard for energy storage safety in the US. The first system will serve the City of Martinsville in Virginia. Together with a 10-year guaranteed asset performance agreement, it is estimated to provide substantial savings to the city.



WÄRTSILÄ ENERGY'S SOLUTIONS ENABLE THE TRANSITION TO MODERN, SUSTAINABLE, RELIABLE, AND AFFORDABLE LOW-CARBON POWER SYSTEMS.

WÄRTSILÄ PORTFOLIO BUSINESS

Wärtsilä Portfolio Business was established in order to simplify Wärtsilä's portfolio, and to align the offering to customer needs and Wärtsilä's business strategies. Portfolio Business consists of five stand-alone business units, which are run independently. Their aim is to accelerate performance improvement and to unlock value through divestments or other strategic alternatives. The business units are:

AMERICAN HYDRO

American Hydro specialises in optimising, upgrading, and servicing hydroelectric systems. American Hydro's success lies in its state-of-the-art technology in the design and manufacture of components for Francis, Kaplan, and propeller hydro turbines, pump turbines, and large pumps. Its designs are customised to meet specific project requirements, such as life extension, increased capacity and peak efficiency, elimination of cavitation, and the delivery of environmentally sound technology.

ENTERTAINMENT SYSTEMS (DIVESTMENT ANNOUNCED IN JANUARY 2021)

The Entertainment Systems business unit is an audio, video, and lighting systems integrator and one of the world's leading suppliers for entertainment solutions, public address and general alarm systems, and architectural lighting systems for cruise ships and theme parks. Entertainment Systems provides innovative and creative solutions

using the latest technology in audio, video, and effect lighting to create systems that leave a memorable experience for cruise passengers and theme park visitors. Flexibility in custom tailoring the right mix of resources for each project according to specific customer needs has fuelled the success of Entertainment Systems in the cruise sector for more than 40 years.

SPECIAL PRODUCTS

Special Products partners with its global customer base, providing tailor-made solutions for high-performance power conversion in the naval and aviation industries. These solutions meet requirements for the highest reliability and power density, as well as leading-edge energy efficiency under harsh environmental conditions. Customers are supported with a variety of services, such as training, maintenance, spare parts, as well as comprehensive retrofits and upgrades throughout the lifecycle of the solution.

TANK CONTROL SYSTEMS

Tank Control Systems is an industry leader in liquefied gas storage instrumentation and safety systems. The business has strong references with more than 300 large LNG land-based storage terminal tanks equipped globally, and more than 500 large LNG carriers equipped with Whessoe-branded secondary gauging systems.

WATER & WASTE

The Water and Waste business unit supplies state-of-art advanced waste management solutions that secure maximised energy efficiency and minimised discharge impact. It also has the broadest portfolio of freshwater generation systems for cruise vessels and other vessel types having a large need for water purification, both for drinking and for technical use. Additionally, Water and Waste supplies the U.S. Coast Guard (USCG) type-approved ballast water treatment equipment for all vessel segments.

WÄRTSILÄ PORTFOLIO BUSINESS WAS ESTABLISHED IN ORDER TO SIMPLIFY WÄRTSILÄ'S PORTFOLIO, AND TO ALIGN THE OFFERING TO CUSTOMER NEEDS AND WÄRTSILÄ'S BUSINESS STRATEGIES.

Development in 2020

Order intake, MEUR

168

Net sales, MEUR

181

Comparable operating result, MEUR

-6

Comparable operating result, %

-3.1



R&D AND INNOVATION

LET'S CHANGE
THE COURSE OF
THE FUTURE

Wärtsilä's purpose is to enable sustainable societies with smart technology. As a global forerunner in decarbonising the marine and energy markets, we continuously invest in sustainable innovation and product development to deliver digital solutions and smart technologies that focus on customer needs, and which exceed regulatory requirements.

TOWARDS A SMART MANUFACTURING ECOSYSTEM

Wärtsilä's approach to manufacturing emphasises safe, innovative, and digitally connected processes. A strong culture of operational excellence and a commitment to continuous improvement form the basis for ensuring on-time, cost-competitive, and high-quality products from advanced manufacturing environments.

Our factories handle the assembly, testing, and finishing of products, as well as the in-house production of key components. The global manufacturing footprint is continuously optimised for competence, availability, and efficiency. The assembly-based manufacturing model, which is strongly connected to a broad network of suppliers, provides a high level of flexibility in capacity.

We work in close cooperation with carefully selected suppliers from around the world. Strong relations and information sharing help ensure market-conforming lead times for component supplies. The sourcing strategy emphasises performance and innovation. The aim is to continuously develop and strengthen the global supply chain, thereby maintaining quality and cost competitiveness.

To further leverage our supplier network and to support the Smart Marine and Smart Energy visions, we invest in the creation of a smart manufacturing ecosystem with top-notch advanced manufacturing

R&D expenditure,
MEUR

153



ECOSYSTEM OF CO-CREATION

A new, integrated centre of research, product development, and production, Wärtsilä's Smart Technology Hub invites people from around the globe to take part in co-creating innovations that enable sustainable societies.

Opening in Autumn 2021 in Vaskiluoto, Vaasa, Finland, the centre will be unique in its field, enabling more agile and efficient testing and product development of solutions for the maritime and energy industries. The Hub will link together various Centres of Excellence to improve product and solution development by maximising synergies. In this way, we are able to effectively put to use all of the know-how we have at Wärtsilä. Furthermore, advanced and flexible manufacturing processes will be applied in the Hub, with robotics and data analytics playing a key role.

A flexible innovation platform called Smart Partner Campus is being piloted as part of the Hub. The Campus focuses on research and product development together with companies, start-ups, and researchers within the industry, as well as with Wärtsilä's partners, customers, and suppliers. In addition, carefully selected world class STH Technology Partners will bring benchmark technology from their own fields of expertise to the Hub. The Smart Partner Campus offers these partners a platform for innovation and co-creation together with Wärtsilä and other partners both locally and globally.

The location of the Hub is strengthening the ecosystem. The energy cluster in the Vaasa region is the leading energy region in the Nordics, and together with other key-players, we will position ourselves as a leading ecosystem of co-creation.

technologies and automated solutions. Smart manufacturing is based on the concept of open innovation and open ecosystem, where factories, suppliers, and customers are deeply connected. It requires smart technologies and data interaction throughout the value chain. The investment in the Smart Technology Hub in Vaasa, Finland, is a core element of this ecosystem.

STRIVING FOR HIGH STANDARDS

Optimising new solutions and their time to market is carried out using increased levels of simulation, virtual testing, and validation, with the aim of securing reliability and safety without compromising quality. Only after the solutions have successfully passed all the set criteria in accordance with Wärtsilä's high standards, can new products be released to the market.

Type approvals are sought from classification societies and/or relevant authorities before new products are launched to the market to ensure safe and compliant designs for customers. In 2020, we received the following approvals:

- Type approval for the [Wärtsilä Exhaust Gas Cleaning System \(EGCS\)](#) by the China Classification Society (CCS), which marked a significant breakthrough for the system in the Chinese market
- The DNV GL classification society's type approval for the [SceneScan position reference system](#), which also won the [Dynamic Positioning 2020 Award](#)
- DNV GL type approval certificate and cyber security certification by the International Electrotechnical Commission (IEC) for the [Translink](#) solution, which is part of the connected Electronic Chart Display and Information System (ECDIS) concept
- Type approval for [Wärtsilä Aquarius UV and Aquarius EC Ballast Water Management Systems \(BWMS\)](#) in compliance with the so-called Revised G8 IMO Resolution on behalf of the Norwegian Maritime Authority by DNV GL
- System level cyber security certification for the [GEMS Power Plant Controller \(PPC\)](#) by the IEC, making Wärtsilä the first manufacturer in the energy industry to have a hybrid power plant certified with this global standard for critical devices

- Type certification for the [Wärtsilä 31SG gas engine generating set](#), verifying its design and engineering standard as being fully compliant with Germany's grid code requirements

INNOVATING FOR SUSTAINABILITY

At Wärtsilä, we are committed to helping minimise the environmental footprint of the maritime and energy industries. A substantial proportion of the investments made in product and solution development is targeted at supporting customers in the industries' efforts to achieve decarbonisation. This includes a shift towards the use of carbon neutral fuels, such as bio and synthetic fuels, and adopting digital innovations and advanced data analytics systems for more efficient and safe operations.

We develop technologies in all our businesses that comply with, and even exceed, ever more stringent sustainability targets. These include technologies related to efficiency improvement, fuel flexibility, the reduction of gaseous and liquid emissions, waste treatment, noise abatement, hybrid and energy storage systems, as well as effluent and ballast water treatment. Our proactive approach to meeting future demand has resulted in the development of both primary and secondary abatement technologies and has broadened the range of usable fuels. With the help of intelligent digital solutions and services, data can be collected, analysed, monitored and reported, allowing us to optimise operations and reduce emissions.

The key features of our environmental solutions and services include:

- Low emission and noise levels
- High efficiency
- Digital intelligence
- System level optimisation
- Compliance with environmental regulations
- Fuel flexibility
- Renewable energy integration with engines and storage systems
- Dynamic capabilities
- Low water consumption
- Lifecycle support and optimisation
- Reliability, safety, and a long lifespan

By combining these key features and understanding the system level benefits of our offering, we are able to provide solutions that further the development of sustainable shipping and power systems.

WÄRTSILÄ RANKED FIRST IN UN CHALLENGE TO FIGHT CLIMATE CHANGE WITH BIG DATA

Wärtsilä was awarded first prize in the United Nations' AIS Big Data Hackathon, which took place in September 2020. Out of dozens of candidates, Wärtsilä was the only multinational corporation selected to participate together with 17 other teams from some of the world's best research institutes and universities. The Wärtsilä team, named 'Blue Carbon', developed a model for attributing the CO₂ emissions from vessels to their geographical locations based on their AIS (Automatic Identification System) locations. The model supports the creation of a global map, identifying both the geographical concentrations and the build-up over time of CO₂ emissions from shipping. This will enable environmental policy making to be based on factual evidence, allowing greater input from national and regional authorities to support the IMO's regulatory efforts.

WÄRTSILÄ'S SUSTAINABLE SOLUTIONS

IMPROVING EFFICIENCY



Fleet efficiency

The Wärtsilä Fleet Operations Solution (FOS) is designed to achieve the highest level of safety at sea, increase fleet efficiency, and simplify everyday tasks both ashore and on board. FOS unites all navigational processes and voyage data on a single platform, allowing the crew and the operations centre to work as one. FOS offers improved operational processes relating to fleet performance, voyage planning and execution, weather routing, and ship-to-shore reporting in compliance with environmental regulations such as EU-MRV and IMO-DCS.



Total vessel and voyage efficiency

An efficient and low-emissions system for the entire vessel is achieved by combining an optimised ship design with our knowledge of automation, machinery, propulsion, and control systems. We have developed numerous efficiency concepts, such as the Low Loss Concept (LLC) and Low Loss Hybrid (LLH) for electric propulsion systems. We also offer vessel and voyage performance optimisation services that improve energy efficiency, reduce emissions and costs, and help make the best possible decisions for asset and voyage management.



Power plant efficiency

Wärtsilä's engine-based power plants offer the highest single cycle efficiencies with outstanding flexibility using a broad range of fuels. Total plant efficiency can further be improved and optimised through hybrid solutions, Flexicycle solutions (steam combined cycles), combined heat and power (CHP) solutions, tri-generation (power, heat, and cooling) solutions, as well as by our lifecycle solutions, which ensure that the power plant operates in the most energy-efficient way and in compliance

with regulations. Our offering also includes tools for the smart integration of energy production and storage at system level.



Engine efficiency improvements

A long-term focus on improving engine efficiency has resulted in Wärtsilä engines having the highest efficiency ratings among existing prime movers. A key success factor has been the development of integrated engine functionalities that enable low emissions and high engine efficiency. The Wärtsilä 31SG is the latest gas engine in our portfolio, taking efficiency to a new level for internal combustion engines.



Propulsion efficiency upgrades

Propulsion products incorporate environmental features and are critical in terms of the overall environmental impact of the vessel. Our propulsion units and energy saving solutions, such as the Wärtsilä EnergoFlow, result in significant fuel efficiency improvements of up to 10% while reducing NO_x and CO₂ emissions.

REDUCING EMISSIONS TO AIR



CO₂ and other greenhouse gas (GHG) emissions

We develop technologies that reduce GHG emissions in numerous ways. These include gas and multi-fuel engines, as well as solutions for environmentally advanced vessels, voyage optimisation, and energy storage. Wärtsilä's flexible energy solutions and research on future fuels, including hydrogen, ammonia, and synthetic fuels, enable a transition towards a 100% renewable energy future. Our energy efficiency engineering services also support significant reductions in GHG emissions.



SO_x emissions

We provide a number of solutions that help customers reduce SO_x emissions and comply with local and global regulations. These solutions enable the use of fuels with different sulphur contents, including alternative fuels with close to zero sulphur content, such as natural gas. Our offering of exhaust gas cleaning systems (EGCS) not only reduce SO_x emissions, but also remove large levels of particulate matter and black carbon. The Wärtsilä EGCS can be customised to meet both the 0.1% limit in Emission Control Areas (ECA) and the global 0.5% cap set by the International Maritime Organization (IMO).



NO_x emissions

Our entire marine engine portfolio is IMO NO_x Tier II compliant, while our solutions for IMO NO_x Tier III compliance include selective catalytic reduction (SCR), dual-fuel engines in gas mode, and pure gas engines. The low NO_x emission levels of our stationary engine-based power plants meet all current environmental regulatory requirements.

PROTECTING THE MARINE ENVIRONMENT



Ballast water management systems

The Wärtsilä Aquarius range of IMO and U.S. Coast Guard (USCG) approved ballast water management systems (BWMS) limit the spread of ballast water related invasive species and prevent their introduction to aquatic ecosystems. The Aquarius BWMS range offers both ultraviolet (UV) and electro chlorination (EC) technology.



Waste treatment

We offer a complete, fully integrated, wet and dry waste treatment system suitable for all vessel types and sizes. The innovative advanced waste water treatment technology, with external membrane separation, is based on biological degradation. The system allows high purity treatment of black and grey water in accordance with the most stringent legislation, including the removal of nutrients, such as phosphorous and nitrogen compounds, as required in special areas such as the Baltic Sea and Alaskan waters. Our waste management product range also includes vacuum toilets and collection systems, food waste collection and treatment systems, solid waste handling, drying and incineration, and sewage treatment plants.



Environmentally and operationally efficient shaft line solutions

Oil leakage from the shaft line can harm marine ecosystems, restrict access to ports, and can lead to fines being imposed. This can be avoided with water lubricated seals and bearings, which are already standard in navy installations. We have developed a range of high-quality, water and oil lubricated shaft line products and packages that can be used with all vessel shaft sizes.



Reduction of underwater noise

An increasingly important issue in the shipping industry is underwater noise which has a direct impact on marine life. We have developed solutions to minimise and control underwater radiated noise generated from onboard systems. These include solutions for propellers, such as the Wärtsilä EnergoProFin, and double suspension for engines to meet the requirements set by, for example, local port authorities in Canada. Our work also includes the development of customised silent modes for vessel operations.

NEW PRODUCTS AND SOLUTIONS IN 2020

In 2020, the following solutions were launched in support of our Smart Marine and Smart Energy visions:



Smart Energy – towards 100% renewable energy

- The [Wärtsilä Energy Transition Lab](#) is an open-data platform providing detailed data on electricity generation, demand, and pricing for the EU countries and the UK. It allows users to model how systems could operate in the future with more renewables, helping to pinpoint problem areas and highlighting where to focus policies and investments.
- [Atlas of 100% Renewable Energy](#) is an open access interactive map on cost-optimal, 100% renewable electricity systems globally. The map provides valuable information on the potential of renewable energy in relation to geographical regions and their solar and wind conditions.



Smart Marine – transformation towards a Smart Marine Ecosystem

- [LNG Bunkering & Supply System simulator](#) promotes greater safety onboard LNG fuelled vessels by improving the level of training provided for the operators of LNG systems.
- [Smart Support Centre service](#) delivers global operational support via virtual service engineers. The service is designed to maintain all Wärtsilä Voyage equipment, including ship handling solutions, simulation and training systems, and ship traffic control solutions.
- [FuelFlex Injection Control Unit \(ICU\)](#) is an upgrade solution to meet the requirements of operating RT-flex type 2-stroke diesel engines with both residual and low-viscosity marine fuels. This is particularly relevant with regards to the increasing use of low-sulphur-content fuels.
- [Assured Operations](#) is a remote service for Wärtsilä's 4-stroke and 2-stroke engine customers that allows them to overcome COVID-19 travel restrictions. It enables technical experts to assess and resolve operational issues via a remote connection between the vessel and Wärtsilä's Expertise Centres.

- [Data-Driven Dynamic Maintenance Planning solution](#) utilises digitalisation and our extensive capabilities in analytics to increase the uptime of assets and reduce lifecycle costs by optimising major overhaul intervals, without compromising operational reliability or engine efficiency.
- [Compact Reliq reliquefaction plant](#) is designed to reliquefy boil-off gas onboard gas carriers and LNG bunker vessels, and for keeping the cargo cool under all operational conditions. Its compact design enables it to be installed on existing vessels without extensive modification work.
- [Cloud Simulation solution](#) developed by Wärtsilä Voyage enables remote access to training sessions when physical attendance is not possible or convenient. It comprises a combination of cloud-based solutions, including navigational, engine room, and liquid cargo handling simulators.

**AT WÄRTSILÄ,
WE ARE COMMITTED
TO HELPING MINIMISE
THE ENVIRONMENTAL
FOOTPRINT OF
THE MARITIME AND
ENERGY INDUSTRIES.**

PARTNERSHIPS ENHANCING A SUSTAINABLE FUTURE

Meaningful connections with a wide range of stakeholders, including customers, suppliers, partners, government agencies, academia, and start-ups form the foundation of our open innovation activities. We regularly participate in a variety of start-up accelerators and have invited partners to co-create, prototype, and validate new products and solutions in the new Smart Partner Campus. By working together with partners in our R&D centres, quick insights into potential customer values can be identified.

In 2020, we joined forces with leading companies and other organisations to put our purpose and strategic goals for a 100% renewable energy future and a Smart Marine Ecosystem into action. These partnerships aim to enhance new research and cooperation on innovative sustainable solutions, improve efficiency, and accelerate the decarbonisation of shipping and the development of clean fuels.

Smart Marine Ecosystem

- Wärtsilä and DNV GL agreed to collaborate in [promoting and accelerating the marine sector's digital transformation](#). The project will examine the application of digital technologies and big data in areas such as autonomous ships, advanced remote services, new bridge technologies, data sharing, and cyber security.
- Wärtsilä, Carnival Maritime, and Hamburg Vessel Coordination Center [successfully implemented and tested the new Wärtsilä Navi-Port solution for just-in-time sailing](#). Together, we achieved a seamless exchange of data between ship and shore, enabling optimal port arrival times.
- Wärtsilä joined a global consortium to develop the [Mayflower Autonomous ship project](#), which will enable the world's first fully autonomous, unmanned vessel to cross the Atlantic. The ship will be equipped with the Wärtsilä RS24 radar system designed to provide optimised levels of situational awareness, especially in densely populated marine environments.

Decarbonising shipping

- Together with a consortium of six other industry and academic partners, we were awarded EU funding for a major project named SeaTech. The project is aimed at [reducing fuel consumption and lowering emission levels](#) for shipping by developing advanced ship engine and propulsion systems.
- We also joined ING Bank, Engie, and the Port of Rotterdam Authority to form Zero Emission Services B.V. (ZES), an enterprise aimed at making inland [waterway shipping more sustainable](#) with replaceable battery containers.
- A partnership agreement was signed with architect and yacht designer Stefano Pastrovich on the design of innovative [sustainable superyachts](#) for the boutique cruise sector. The design will feature a fully integrated combination of hybrid propulsion and solar panels.
- Along with ten other members, we formed an international coalition to accelerate the [energy transition in the transport and logistics industries](#). The members will pool their R&D efforts to curb global warming, reduce air pollution, and protect biodiversity with the aim of achieving technological breakthroughs by 2030.
- We joined a Norwegian [fuel cell technology project](#) to develop the means to achieve sufficient energy storage for entire voyages.
- We were also granted funding by the Norwegian government for a partnership project with Grieg Edge to build the world's first [green ammonia fuelled tanker](#).



Cleaner fuels for marine and energy

- [Wärtsilä's LPG fuel supply system](#) successfully completed full-scale testing with a full-sized 2-stroke marine engine burning liquid petroleum gas (LPG) as fuel. The tests were completed by retrofitting the system on four very large gas carriers (VLGC) owned by the Norwegian operator BW LPG.
- We were granted funding by Business Finland for the [X-Ahead project](#), under which we will form and lead a strong network of universities, research industries, and small and medium-sized enterprises on a national and global scale to develop an effective ecosystem around Power-to-X research. In addition, we signed an agreement with Vantaa Energy Ltd, a Finnish energy company, regarding a joint concept feasibility study for a [power-to-gas facility](#) at Vantaa Energy's waste-to-energy plant.
- Wärtsilä, Eidesvik Offshore, Equinor, and Prototech joined forces in the EU demo project ShipFC, where the Viking Energy will become the [world's first vessel with fuel cells](#) powered by ammonia. In addition, in close cooperation with Knutsen OAS Shipping AS, Repsol, and Sustainable Energy Catapult Centre, we initiated the world's first long-term, [full-scale testing of ammonia as a fuel in a marine 4-stroke combustion engine](#).
- Our research into the use of hydrogen and ammonia continued in cooperation with research institutes and selected customers. The research shows that 25% vol of hydrogen can already be blended with natural gas in energy plants and 15% vol in marine engines with good performance, thus clarifying the path towards pure hydrogen use. Research on these alternative fuels will continue throughout 2021.



PROGRESS AND INNOVATION AROUND FUTURE FUELS

In October, Wärtsilä was selected as one of the Top 10 Innovation winners for 2020 by the Innovation for Cool Earth Forum (ICEF), hosted by the Government of Japan. The award was given for Wärtsilä's development work in assessing future fuel capabilities, and in particular for its combustion tests using ammonia as fuel. By leveraging the company's unique experience in developing flexible engine solutions, Wärtsilä aims to answer the pressing needs in its customers' industries by accelerating development in the area of future fuels. In 2020, substantial steps have been made.

Building on existing know-how

Ammonia can be created with green energy and contains no carbon, so it doesn't release carbon dioxide when combusted. It can be produced and used with no carbon emissions whatsoever: a huge advantage in the journey towards a cleaner and sustainable world.

About 175 million tonnes of ammonia is currently produced annually. Its main use is in fertilisers, but you probably have ammonia in your house, as it is a common agent in cleaning products. Generally speaking, we already have the know-how to use ammonia; the challenge is to apply this knowledge in innovative ways.

"If we modify the fuel, we can use it in our current engines," says **Kaj Portin**, General Manager, Sustainable Fuels. "For instance, maybe we can mix ammonia with liquefied natural gas (LNG) or diesel to get it to ignite."

Wärtsilä is testing the use of ammonia with dual-fuel and spark-ignited gas engines, and in 2022, will begin working with ship owners on field tests.

In addition to using ammonia in regular combustion engines, there is also another option: fuel cells, electrochemical cells that convert the chemical energy of a fuel and an oxidising agent into electricity. Using hydrogen in a fuel cell is a common idea, but ammonia can also be used in one, which is already happening on one Norwegian vessel.

"One major advantage of ammonia is that the infrastructure to use it already exists," explains **Cato Esperø**, Sales Director, Wärtsilä Norway. "It is already shipped around the world in huge quantities."

Wärtsilä is involved in a number of other ammonia-related projects. Carnival is studying the use of ammonia on their huge fleet of cruise ships. Repsol wants clean energy produced by ammonia on their offshore rigs.

"We are really excited about the opportunity ammonia as a fuel provides," Esperø says. "In the near future engines will be running with zero carbon emissions. It will happen fast: we are doing something good for the future, and this will be great news for the whole world."

Power-to-X in action

Methane represents another viable alternative fuel, thanks to agents so small we can't even see them: microorganisms. Microbes can help us create synthetic fuel using excess renewable energy in a process called biomethanation. This is an example of the Power-to-X process, where excess renewable energy, along with carbon dioxide and hydrogen, is converted into a form which can be stored for later use. In this case, power is ultimately transformed into synthetic methane gas. The Power-to-X process is a key to accelerating the transition

to a sustainable future, where there will be an excess of renewable energy available.

There are other ways to create methane, such as catalyst technologies, but currently some of these methods need high pressure and high temperatures. Q Power – one of Wärtsilä's partners in the development and commercialisation of renewable fuels – has a different approach.

“By using microorganisms in our unique bio-reactors we can perform the process using low temperatures and no pressure,” their R&D Director **Anni Alitalo** says. “In addition, we don't need to mix or constantly pump fluid. Our technology solves the problem of needing lots of energy to create biomethane.”

A major benefit of biomethane is that it doesn't require extensive new infrastructure. The world already uses methane and LNG for energy generation and transport, and bio-LNG, liquefied biomethane, and liquefied synthetic methane can replace LNG with no changes to existing systems.

Biomethane does, however, have issues that need to be addressed. First, it needs raw material, and [biogas plants, such as the carbon-neutral synthetic biogas production](#), could be built close to major forestry, food, or agriculture centres where they could source biomass such as residues. The biggest challenge currently is cost, but as biogas plants scale up production, costs are expected to come down in the same way as wind and solar power. Even more importantly, if the costs of carbon emissions are included in the price of fossil fuels, then biomethane begins to look much more attractive.

Hydrogen also has strong potential as a future fuel, and Wärtsilä is keen to take a leading role in using it for flexible power generation. So far, the market for hydrogen engines has been limited, but the interest and need for them is likely to emerge in years to come as the use of fossil fuels is going to reduce.

“Wärtsilä is testing concepts for both blending hydrogen into natural gas as well as pure hydrogen operation,” says **Jussi Heikkinen**, Director, Growth & Development, Americas Area, Wärtsilä Energy. “With the R&D process well underway, our engines can already use hydrogen as a blend, and we will be ready to bring hydrogen engines to the market when the demand emerges.”

Hydrogen burns with air to produce water, without any carbon emissions, making it perfect for use in 100% clean energy portfolios. When hydrogen is produced using excess solar or wind electricity from water, it can be produced inexpensively almost anywhere. NO_x emissions from burning hydrogen may be a little higher than on natural gas, depending on combustion parameters, but particulate emissions should be minimal.

“There are, however, certain safety risks,” Heikkinen explains. “Hydrogen is extremely flammable and burns very fast. Particular caution needs to be taken when engineering a product using more than 25% hydrogen. Special safety regulations for its use need to be in place before it becomes widely available. In some locations, these regulations are still under development.”

A bigger issue is the lack of infrastructure globally to produce, store, and distribute hydrogen at scale. This infrastructure will require both time and significant investment.

The cornerstone is already here

To be fair, lack of infrastructure is a key challenge when considering any of these alternative fuels, and we have seen already from the example of LNG that it takes a long time to build up this infrastructure.

This is one reason why it may be wise to invest in LNG right now, as the only alternative fuel with an existing infrastructure. LNG can be used to make emissions-based improvements right away, while preserving the capacity to switch to bio- or synthetic LNG in the future.

“We see LNG as a cornerstone for meeting the IMO's 2030 targets,” points out Wärtsilä's **Johnny Kackur**, General Manager, Merchant and Gas Carrier Segment Sales. “Fossil LNG alone lowers CO₂ emissions 7–15%, and when you use it together with improved technologies like smart propulsion machineries to increase efficiency, it's possible to reach the 2030 goals.”

[Bio-LNG](#) may be an even more ecologically sound route to take, since it works on the principle of waste-to-energy using manure, forest residue and many other types of waste. However, the critical aspects to consider when selecting a fuel for a new vessel are availability and energy density. Today, the supply chain is unevenly developed, but the latest studies suggest that a sustainable energy supply could be in place by 2030.

Where availability exists, forerunner projects have begun, such as a plant for production of CO₂-neutral liquid transport fuels based in Cologne, Germany, with a capacity of approximately 100,000 tons per year.

It is estimated that biomass-based fuels extracted from forestry products and residues, agricultural residues, and crops grown for energy on surplus land could yield enough volume to supply the whole marine industry and most heavy road transportation with bio-LNG, assuming all vessels were converted.

Regardless of all the uncertainties, there will definitely be a future for internal combustion engines purely due to their unbeatable flexibility. Wärtsilä's engines can run on diesel or LNG and certain synthetic fuels such as carbon-neutral methane and methanol as well as hydrogen blends, and it will also be possible to run the same engines on alternative fuels when they are available. Regardless of one's choice of future fuel, the internal combustion engine is a proven technology, and a fuel agnostic one, well-suited to meet the coming challenges.

SUSTAINABILITY

SUSTAINABILITY AT WÄRTSILÄ



OUR SUSTAINABILITY APPROACH

Our commitment to sustainability is based on our [purpose and strategy](#), which along with our values, principles, and sustainable development objectives create the framework for our product development and responsible business practices. Our sustainability strategy is based on three closely interrelated pillars: economic, environmental, and social performance. We aim to be a profitable company that contributes towards the well-being of society by being a forerunner in sustainable solutions while demonstrating high ethical standards.

Because of our strong emphasis on decarbonising the marine and energy markets, innovative and efficient solutions play a central role in our positive contribution towards sustainable societies. Wärtsilä businesses focus on developing and providing solutions and services that maximise the environmental and economic performance of vessels, power plants and entire systems. This is further enhanced by utilising lifecycle data, analytics and artificial intelligence. Information concerning our sustainable innovations, and new partnerships announced during 2020 are described in the [R&D and Innovation section](#).

“WITH AN URGENT NEED TO ADDRESS CLIMATE CHANGE, WE PROVIDE SOLUTIONS THAT HELP OUR CUSTOMERS AND SOCIETIES AT LARGE TO DECARBONISE.”

Marko Vainikka, Director, Corporate Relations and Sustainability

WÄRTSILÄ’S SUSTAINABILITY APPROACH

WÄRTSILÄ PURPOSE

Enabling Sustainable Societies with Smart Technology

Sustainability Strategy



Sustainability targets

Corporate target setting

Management systems, tools and practices

Variety of tools for managing sustainability issues

Sustainability measuring and reporting

Systematic approach with global reporting tool and external assurance

Stakeholder dialogue and collaboration

Daily dialogue with various stakeholders

SUSTAINABILITY MANAGEMENT AND MATERIALITY TOPICS

Wärtsilä’s sustainability is systematically managed through group-level policies, management systems, and practices in place for [material sustainability topics and impacts](#). The management approach covers procedures, processes, and systems to manage and monitor material topics.

Guiding principles	Management areas	Material topics
<ul style="list-style-type: none"> • Code of Conduct • QEHS Policy • Policy of human rights, equal opportunities and fair employment practices • Corporate Manual 	<ul style="list-style-type: none"> • People and culture • Product design • Environmental management • Occupational health and safety management • Responsible business conduct • Supply chain management 	<ul style="list-style-type: none"> • Emissions • Environmental compliance • Economic performance • Training and education • Occupational health and safety

The guiding principles lay the foundation for uniform management practices. Wärtsilä’s Code of Conduct defines common rules for all employees, and provides guidance on our approach to responsible business practices. The Quality, Environmental, Health and Safety Policy sets principles for managing the environmental impacts of our products and services. The policy on human rights, equal opportunities and fair employment practices creates a common framework for employee practices in all group companies. It covers human and labour rights, equal opportunities, well-being at work, non-harassment, and remuneration. The Corporate Manual also includes other policies, such as anti-corruption, compliance reporting, and supply management policies. The purpose of the manual is to safeguard compliance with relevant legislation, and to provide further guidance concerning daily business conduct.

SUSTAINABILITY GOVERNANCE AND RISK MANAGEMENT

Sustainability is governed by the Board of Directors and the Board of Management. Wärtsilä’s Board of Management has overall responsibility for sustainability performance and approves the guiding group-level policies. It also defines the corporate [sustainability targets](#) and monitors performance against these set targets. The Board of Directors reviews major sustainability issues on an annual basis.

Wärtsilä’s sustainability function is responsible for providing the necessary information to management, identifying development needs, as well as for coordinating sustainability programmes and preparing instructions. The function cooperates closely with the Businesses and support functions, such as Human Resources, Legal Affairs and Compliance. It also collects and consolidates sustainability data from the subsidiaries. More information relating to sustainability governance can be found on our [website](#).

Wärtsilä identifies and assesses its sustainability risks, including climate change risks, in both its strategic and operative risk assessments on an annual basis. Based on the current assessment, the sustainability risks are considered to be at a moderate level, while sustainability continues to create an opportunity for Wärtsilä. Further information can be found in the [Risks and risk management section](#).

COMMITMENTS AND PRINCIPLES

Wärtsilä has signed the United Nations Global Compact initiative and supports its ten principles with respect to human rights, labour, the environment, and anti-corruption. We are committed to aligning our strategy, culture, and day-to-day operations with these principles, and to engaging in collaborative projects that advance sustainable development. Our Code of Conduct and sustainability approach provide the main framework for promoting the principles within our sphere of influence.

Wärtsilä also contributes in a positive way to several of the United Nations Sustainable Development Goals (SDGs) through our purpose and strategy, targets, policies, initiatives, innovative solutions, and

partnerships. We are committed to developing solutions, together with our stakeholders, that solve the societal challenges laid out in the SDGs, while also generating new business opportunities. In particular, we play a vital role in delivering innovative clean energy and smart marine technologies. We have reviewed all the SDGs and their targets, and have identified priority targets for our company. These are most notably SDG7 Affordable and clean energy, SDG8 Decent Work and Economic Growth, and SDG9 Industry, Innovation and Infrastructure.



We also participate in several voluntary initiatives, agreements, and commitments such as Finland’s Society’s Commitment to Sustainable Development, the Finnish Energy Efficiency Agreement, and sustainable business coalitions such as the Getting to Zero Coalition. This latter coalition is committed to getting deep sea vessels powered by commercially viable zero emission fuels into operation by 2030.

More information on our sustainability work is described in the following sections: [CEO review](#), [Highlights](#) and [The Year 2020](#).



WÄRTSILÄ IS INCLUDED IN THE FOLLOWING SUSTAINABILITY INDICES:



FTSE4Good Index



MSCI ACWI ESG Leaders Index



Ethibel Sustainability Index (ESI) Excellence Europe



ECPI ESG Indices



OMX Sustainability Finland Indices



STOXX Global ESG Leaders Index



Dow Jones Sustainability Indices

S&P Europe 350 ESG Index



STAKEHOLDER ENGAGEMENT

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Active engagement with our stakeholders is vital for the development of our business activities, as well as for exchanging information, building long-lasting relationships, and contributing to the building of sustainable societies.

At the corporate level, we have defined our most important stakeholders as being our customers, owners, suppliers, employees, and society in general. Wärtsilä subsidiaries define their own primary stakeholders. In addition to the ones mentioned above, these typically include residents close to production plants, educational institutes, and public authorities. Wärtsilä’s [Code of Conduct](#) and supporting policies provide the foundation for the management of stakeholder relations. The guiding principle of our Code of Conduct is to promote openness and good interaction with our stakeholders, both internationally and locally.

MAIN EXPECTATIONS OF WÄRTSILÄ'S STAKEHOLDERS AND WÄRTSILÄ'S GOALS

Society

Corporate citizenship, employment, compliance, reliable reporting

Customers

Sustainable and innovative solutions and services, quality, reliability, efficiency, safety, performance guaranteed, customer support

Universities

Collaboration in research and education, contacts with industry, partnerships, practical training and thesis opportunities

Employees

Occupational safety and work well-being, professional development, competitive compensation and benefits, open interaction, responsible business conduct

The media

Up-to-date information on business operations, received orders and innovations, interesting and actual topics for stories

Owners, investors

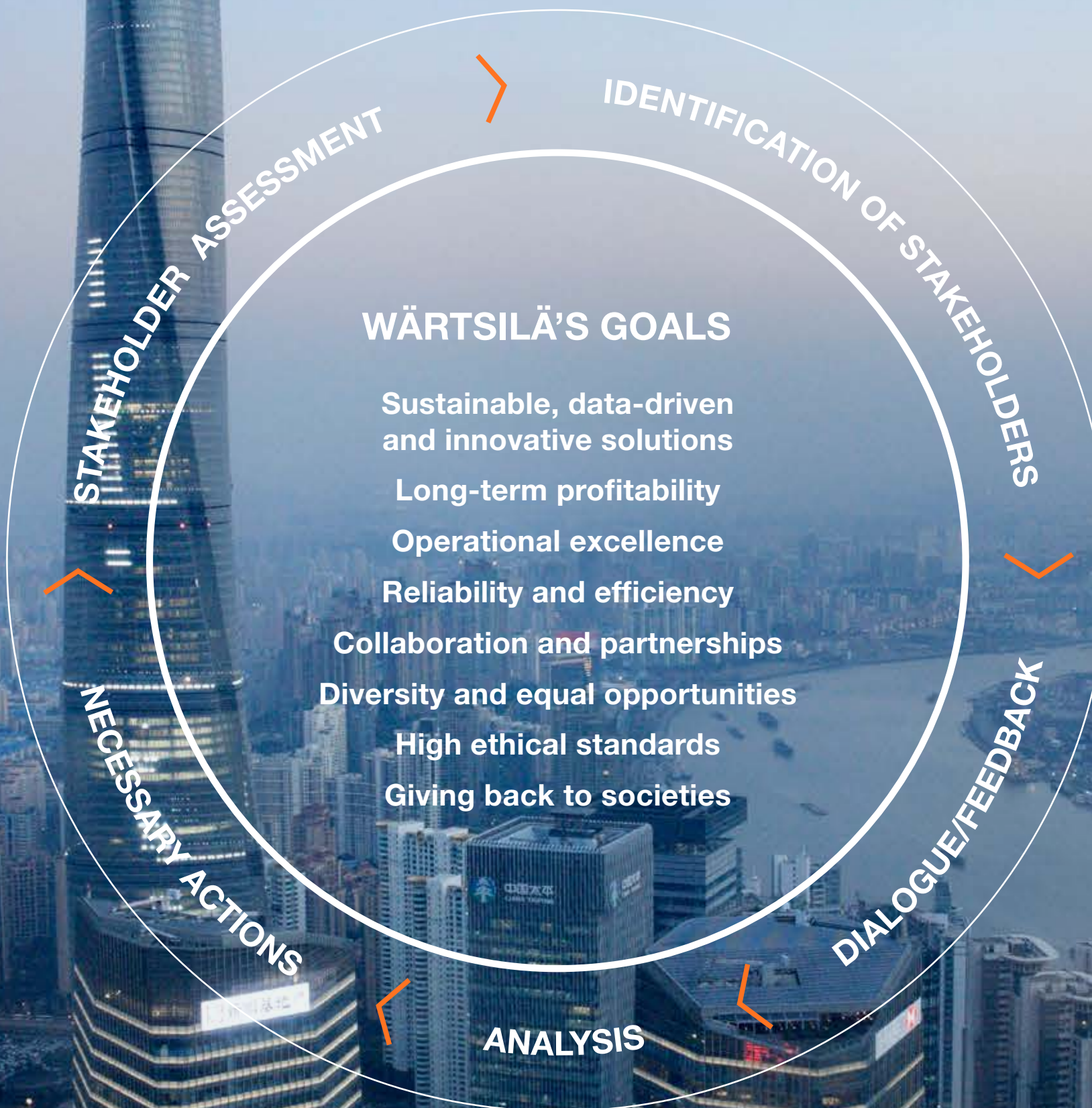
Profitability, long-term return, corporate responsibility

Organisations

Active engagement, joint initiatives, information exchange, technology development



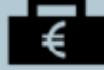

Suppliers





Business opportunities, profitability, business and product development








WE ENGAGE WITH OUR STAKEHOLDERS IN NUMEROUS WAYS TO ENCOURAGE AND MAINTAIN ACTIVE AND OPEN DIALOGUE, AND TO SEEK INNOVATIVE FUTURE SOLUTIONS.

WÄRTSILÄ'S MAIN STAKEHOLDERS AND RELATED ENGAGEMENT CHANNELS

Stakeholder group	Activities with stakeholder	Channels of dialogue	Assessment tools (Frequency)
Customers 	Each year, Wärtsilä's representatives meet customers at global industry-related events, including international and national seminars, exhibitions, and conferences. In 2020, the COVID-19 pandemic brought physical events to a standstill. Nevertheless, Wärtsilä arranged many successful webinars, online meetings, and remote training sessions with its customers, while also providing onsite customer support and addressing customer needs under strict precautionary and safety measures.	<ul style="list-style-type: none"> • Regular meetings • Joint projects • Workshops, events and seminars • Dedicated communications • Corporate websites, social media channels • Conferences and exhibitions • Customer feedback system 	<ul style="list-style-type: none"> • Customer satisfaction surveys (continual) • Quality surveys (continual)
Employees 	Dialogue with employees takes place in many formats. These include discussions, communication channels, meetings, and events. Wärtsilä's global annual employee engagement survey, MyVoice, enables all Wärtsilä employees to provide feedback. In 2020, the participation rate was 82.3%. In addition, during 2020 pulse surveys by business or topic were established to provide an opportunity for more regular and focused feedback. More information regarding the procedures and processes for engaging with our employees are described in the People and culture section, and under the 'Consultation and information procedures in Group companies' section of our Policy on human rights, equal opportunities and fair employment practices .	<ul style="list-style-type: none"> • Open and continuous dialogue between management and employees through internal events, communication channels and daily interaction • Annual development discussions • Check-in discussions and continuous feedback • Town hall meetings • Training events • National statutory employee bodies and European Works Council • Occupational health and safety committees • Collaborative innovation platform Spark • Compliance reporting • Continuous Improvement Proposals (CIP) and Initiatives 	<ul style="list-style-type: none"> • Employee engagement survey MyVoice (annual) • Pulse surveys (ad hoc, 1-4 times a year)
Owners, investors 	Wärtsilä publishes annually two interim reports, a half-year report, a financial statements bulletin, an annual report, and stock exchange releases to provide accurate, sufficient, and up-to-date information on the development of Wärtsilä's business operations, strategy, markets, and financial position. Furthermore, our top management and the Investor Relations (IR) team conduct regular discussions, and host events with analysts and investors, both globally and locally. In 2020, the majority of roadshows and investor meetings were conducted virtually due to the COVID-19 pandemic.	<ul style="list-style-type: none"> • Annual General Meetings • Capital Markets Days • Roadshows • Result presentations and webcasts • One-on-one and group meetings • Global and local investor conferences and seminars, telephone and video conferences • Stock exchange and trade press releases • Annual, interim and half-year reports • IR website 	<ul style="list-style-type: none"> • IR website rankings (annual) • Annual report evaluations (annual) • Investor feedback (continuous)
Suppliers 	We aim to have close and excellent relationships with our key suppliers around the world. Apart from financial benefits, engaging closely with suppliers stimulates knowledge sharing, creates an environment of innovation, and allows strategic suppliers to integrate more strongly into our value chain. In 2020, we took several actions together with our suppliers to identify risks related to reduced availability, and to ensure delivery reliability during the pandemic.	<ul style="list-style-type: none"> • Regular dialogue with suppliers on supplier performance • Supplier portal eTool • Supplier development support • Supplier Days 	<ul style="list-style-type: none"> • Supplier assessments and audits (continual)

Stakeholder group		Channels of dialogue	Assessment tools (Frequency)
<p>Society</p> 	<p>Wärtsilä engages in an active and open dialogue with local and international public authorities and officials. The aim is to share information, provide expertise, and support authorities in improving the quality of regulatory matters. Wärtsilä participates in public consultations in areas that are of importance to the company.</p> <p>Wärtsilä aims to contribute towards the well-being of all local communities where it is present. The means for this include, for example, creating employment, providing training and education to employees, co-operating with local stakeholders, and supporting local development. In 2020, Wärtsilä made donations to support efforts aimed at assisting communities affected by the COVID-19 pandemic as well as donated Personal Protective Equipment (PPE) and medical equipment to local hospitals.</p>	<ul style="list-style-type: none"> • Engagement with public officials on issues such as the environment and occupational health and safety • Meetings with decision makers • Position papers and consultations • Open door days • Sustainability reporting • Local communications • Sponsorships • Corporate websites, newsletters, social media 	<ul style="list-style-type: none"> • Stakeholder feedback (continual) • Corporate image surveys (annual)
<p>Organisations</p> 	<p>Wärtsilä takes part, and holds memberships, in organisations that are significant to the company's business strategies and markets. We participate in activities organised by various international and national organisations and associations through our daily work, board and working group activities, as well as taking part in meetings, seminars and conferences. In 2020, new memberships included, among others, Eurogas and the European Clean Hydrogen Alliance. Key organisations for Wärtsilä and the nature of Wärtsilä's involvement in these organisations at the end of 2020 are presented on the next page.</p>	<ul style="list-style-type: none"> • Regular contact with trade and industrial associations and public bodies • Participation in boards and working groups • Meetings, seminars, conferences and other events 	<ul style="list-style-type: none"> • Internal assessment of memberships (continual)
<p>Universities</p> 	<p>For Wärtsilä, long-term research programmes and research activities together with universities, research institutions, and industrial partners are an important means of building strategic partnerships and developing new and existing solutions. In 2020, we collaborated with more than 20 universities around the world. Partnerships announced in 2020 are presented in the R&D and innovation section.</p>	<ul style="list-style-type: none"> • R&D and student projects • Discussions with university administration • Thesis work and internships • Events, seminars, lectures 	<ul style="list-style-type: none"> • Preferred employer surveys (annual) • Feedback from student and research projects (continual)
<p>Media</p> 	<p>Wärtsilä interacts actively with trade media, as well as with general/financial media. Topics related to our sustainability work are of great interest. We regularly arrange interviews for the media with our experts, which in 2020 were conducted virtually. Moreover, our experts meet trade press representatives at exhibitions/webinars. Wärtsilä's quarterly result press events led by the CEO and the Management Team provide basic information about our financial performance and latest reference projects. In addition, we annually distribute to the media numerous press releases on new orders and projects, and also publish Insights stories on our website.</p>	<ul style="list-style-type: none"> • Briefings • Site, factory and reference visits • Stock exchange, corporate and trade press releases • Management and expert interviews • Annual and Interim reports • Stakeholder magazines, newsletters, social media 	<ul style="list-style-type: none"> • Surveys conducted among business journalists (annual) • Media visibility and share of voice reporting (quarterly)

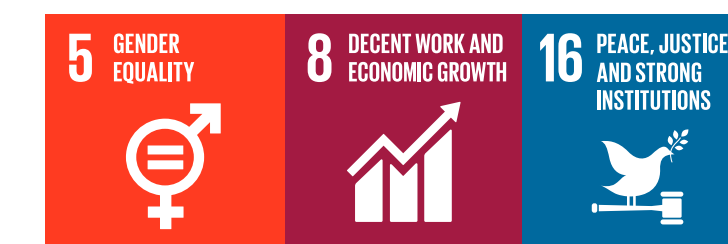
ACTIVITIES IN KEY ORGANISATIONS

Stakeholder	Organisation	Nature of activity
Interest groups 	<ul style="list-style-type: none"> Confederation of Finnish Industries (EK) Finland Chamber of Commerce ICC Finland International Chamber of Commerce (ICC) Teknoliigatollisuus – Federation of Finnish Technology Industries 	<p>Board membership or participation in activities of specific working groups: EK, ICC Finland, Federation of Finnish Technology Industries.</p> <p>Membership and participation in activities: Finland Chamber of Commerce, ICC.</p>
Industrial organisations 	<ul style="list-style-type: none"> American Public Power Association (APPA) Association of Singapore Marine Industries (ASMI) Brazilian Institute of Oil and Gas (IBP) Brazilian Thermoelectric Generators Association (ABRAGET) Caribbean Utilities Association (CARILEC) Cogen Europe Cruise Line International Association (CLIA) Engine Manufacturers Association (EMA) Eurogas European Association of Engine Manufacturers (Euromot) European Engine Power Plants Association (EUGINE) Exhaust Gas Cleaning System Association (EGCSA) Interferry International Council on Combustion Engines (CIMAC) SEA\LNG Power to X Alliance Society for Gas as a Marine Fuel (SGMF) U.S. Energy Storage Association (ESA) Verband Deutscher Maschinen- und Anlagenbau (VDMA) WaterBorne TP 	<p>Board membership or participation in activities of specific working groups: CARILEC, CIMAC, Cogen Europe, EMA, Euromot, EUGINE, SEA\LNG, VDMA, WaterBorne TP.</p> <p>Membership and participation in activities: ABRAGET, APPA, ASMI, CLIA, EGCSA, ESA, Eurogas, IBP, Interferry, Power to X Alliance, SGMF.</p>
Standardisation organisations 	<ul style="list-style-type: none"> International Organisation for Standardisation (ISO) Finnish Standards Association (SFS) 	<p>Participation in activities.</p>
International and EU organisations 	<ul style="list-style-type: none"> Digital Transportation Logistics Forum (DTLF) European Clean Hydrogen Alliance (ECH2A) European Ports Forum (EPF) European Sustainable Shipping Forum (ESSF) Global Compact Nordic Network (GCNN) Global Industry Alliance (GIA) International Maritime Organization (IMO) 	<p>Participation in activities through national delegations and other organisations: IMO.</p> <p>Participation in activities: DTLF, ECH2A, EPF, ESSF, GCNN, GIA.</p>
Other 	<ul style="list-style-type: none"> Climate Leadership Coalition (CLC) European Energy Forum (EEF) Finnish Business & Society (FIBS) 	<p>Board membership: CLC.</p> <p>Membership and participation in activities: FIBS, EEF.</p>



RESPONSIBLE BUSINESS CONDUCT

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Wärtsilä's employees represent approximately 140 nationalities in more than 70 countries, and we have delivered solutions to 180 countries. As a truly international company, and having employees from different cultures all over the world, common values and ethical principles help us in setting a consistent approach for responsible business conduct. Since we also support our solutions globally during their entire lifecycle, often spanning up to 30 years, we can at times be present in countries facing various uprisings, ethnic conflicts, area disputes, or violations of human rights. This emphasises the importance of our responsible business practices.

VALUES AND CODE OF CONDUCT PROGRAMME

Wärtsilä’s [Code of Conduct](#) defines common rules for all employees, and provides guidance on Wärtsilä’s approach to responsible business practices. The key areas of the Code of Conduct include compliance with laws, transparency and continuous stakeholder dialogue, respect for human and labour rights, occupational health and safety, fair employment practices, anti-corruption, anti-fraud, and environmental protection.

We take an active approach to the application of the Code of Conduct, and promote its implementation through effective communication, training programmes, and processes. Our Values and Code of Conduct programme includes various actions aimed at strengthening the ethical culture of our company. These include the signing of an individual Code of Conduct Undertaking letter, an e-learning programme, and Values and Code of Conduct discussions, which are aimed at creating common understanding and strengthening the values and principles of the Wärtsilä Code of Conduct. At the end of 2020, 96% of Wärtsilä’s employees had successfully completed the Code of Conduct e-learning.

RESPECTING HUMAN AND LABOUR RIGHTS

Wärtsilä supports and respects internationally recognised human rights as outlined in the United Nation’s (UN) Universal Declaration of Human Rights. We also support the Ten Principles of the UN Global Compact, of which six principles are related to Human and Labour rights.

We support fair and equal treatment of all our employees and the work-related rights defined by the International Labour Organization (ILO). Therefore, we work to ensure that there is freedom of association and right to collective bargaining in the company. In those countries where local legislation does not recognise these rights, employees are offered other channels for expressing their opinions. We also promote gender equality and are committed to including women in all aspects of our business. Wärtsilä’s Diversity Initiative has been in place since 2012, fostering an inclusive corporate culture at all levels. In 2020, we started a Diversity Talks series which aims to drive the conversation about how individuals can inspire change.

IMPLEMENTATION OF THE CODE OF CONDUCT

Code of Conduct

- Introduction
- Compliance with law
- Openness
- Respect for human and labour rights
- Fair employment practices
- Conflict of interest
- Anti-corruption
- Environment
- Occupational health and safety
- Relationships with authorities and local communities
- Innovation and protection of proprietary information
- Accuracy of accounting records
- Competition and fair dealing
- Anti-fraud
- Implementation
- Reporting violations
- Sanctions

Policies

- Quality, environmental, health and safety
- Human rights, equal opportunities and fair employment practices
- Anti-corruption
- Compliance reporting
- Broker
- Agent
- Distributor
- Accounting manual
- Intellectual property
- Competition law compliance
- Supply management
- Trade compliance
- Personal data protection

Communication, training and processes

- Group-wide mandatory Code of Conduct and anti-corruption e-learning programmes
- Signing of an individual Code of Conduct undertaking
- Dedicated Code of Conduct and compliance intranet pages with support material in multiple languages
- Values and Code of Conduct discussion sessions
- Online trainings for implementing policies
- Tailored classroom trainings
- Reporting and investigation of non-compliance cases
- Risk management process
- Monitoring and evaluation

Wärtsilä's Code of Conduct and [Policy on human rights, equal opportunities, and fair employment practices](#) define common rules and provide guidance for all employees on respecting human and labour rights and fair employment practices. Human and Labour rights are also included as part of the [Wärtsilä Supplier Handbook](#). Additionally, human rights considerations and international best practices are incorporated within various guidelines, such as the [Quality, Environmental, Health and Safety Policy](#), which sets priorities for enhancing health and safety in our business operations.

PREVENTING CORRUPTION AND BRIBERY

Wärtsilä's Code of Conduct, [Anti-Corruption Policy](#), as well as specific policies implemented for sales intermediaries, namely Agent, Broker and Distributor Policies, expressly prohibit the company and its employees from offering or accepting any kind of benefit considered to be a bribe and from taking actions that could give rise to a conflict of interest or breach of loyalty. The policies make it compulsory to comply with anti-corruption laws of all the countries in which we do or intend to do business and urge the reporting of any cases of corruption and bribery. We are aware that the risk of corruption and fraud is heightened in many markets where we operate. Therefore, full compliance with a stringent anti-corruption regime is required of all employees.

We maintain an extensive training programme mandatory for all employees on anti-corruption principles and applicable legislation, as well as the relevant company policies and procedures. At the end of 2020, 93% of Wärtsilä's employees had successfully completed the Anti-Corruption training.

POLITICAL LOBBYING

Wärtsilä's policy is to engage in an open dialogue and discussion with both local and international public authorities and officials. The aim of the dialogue is to share information and improve the quality of regulation. We participate in public consultations in the areas of importance to the company. Wärtsilä is registered on the Transparency Register of the European Commission.

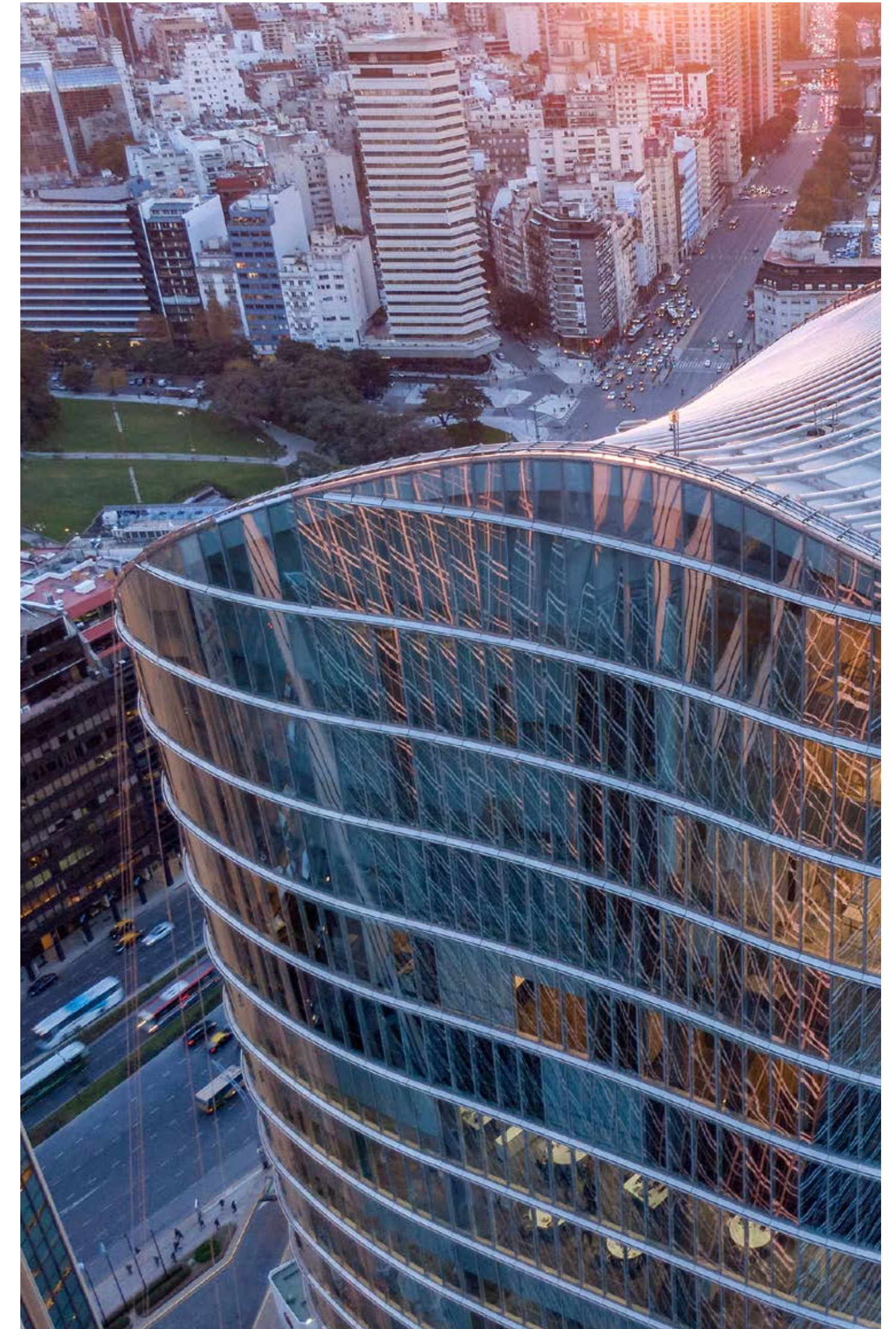
COMPETITION REGULATION

Wärtsilä has in place a competition compliance programme for managing risks relating to competition law, and our management is strongly committed to implementing this programme. The cornerstone of the programme is a competition law policy, which is kept up-to-date, providing information on competition rules and guidelines for our personnel. The competition compliance programme builds upon an e-learning module, based on the competition law policy. In addition, competition compliance training sessions were held in 2020 for relevant personnel in order to promote understanding of competition laws and their compliance requirements.

REPORTING MISCONDUCT

Wärtsilä employees are encouraged to voice their concerns relating to any potential violations of the Code of Conduct and its underlying policies and instructions. The reported misconduct cases are investigated either locally or centrally, as appropriate. The primary means for reporting suspected misconduct incidents is via the line management. However, employees also have alternative reporting routes, including an externally hosted whistleblowing channel, reporting directly to the compliance function, or by informing legal affairs. If a suspected violation involves the top management of Wärtsilä Corporation, or where the suspected case is believed to be significant, the Audit Committee of the Board of Directors of Wärtsilä Corporation can be contacted directly. Employees who report a potential Code of Conduct violation in good faith will not suffer harassment, retaliation, or adverse employment consequences. In all cases, our employees can seek advice on ethical and lawful behaviour and on matters of integrity from Wärtsilä legal counsels or from the compliance function.

In 2020, a total of 98 reports of suspected misconduct incidents were made. All reported incidents were investigated and appropriate corrective actions were taken. Where deemed necessary, this was followed by developing existing processes and instructions, and by providing training for employees.





PEOPLE AND CULTURE

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Wärtsilä’s People Agenda contributes to the company and its businesses in supporting the achievement of business goals and ambitions. By translating business [strategy](#) into people priorities for the business, and deploying expertise in organisational development and workforce effectiveness, critical competences are secured and further developed to meet both current and future business needs.

The People Agenda’s key focus areas are talent and leadership development, culture transformation, and performance excellence. Talent actions ensure that the businesses have people with the required skills and motivation at their disposal. Continuous learning, competence development and growth, as well as evolving the organisation and its ways of working, strengthen our competitive advantage. These actions are integral to driving the business agenda in a dynamic marketplace, and for maintaining a relentless focus on providing value to customers and stakeholders.

Strengthening accountability and ownership is encouraged by promoting employee engagement through a culture of open communication, integrity, and innovation. At the same time, we

emphasise performance and operational excellence throughout the organisation. This includes quality in the setting of targets, proper and regular feedback, the evaluation of overall performance, and recognition of outstanding performance.

2020 – PEOPLE’S HEALTH, SAFETY AND WELL-BEING ON TOP OF THE AGENDA

2020 marked an extraordinary year with the onset of the global COVID-19 pandemic. During this time, securing the [health and safety](#) of Wärtsilä people and their families has continued to be the top priority. At the same time, we have had to keep our customer commitments, and maintain Wärtsilä’s ongoing business operations.

Wärtsilä maintains a diverse global workforce with thousands of employees performing tasks onsite, in the field, or at our customers’ premises. By establishing a global crisis response team, and local country incident management teams working cross-functionally from HR, EHSS, risk management, quality, communications and business domains, it was possible to monitor the rapidly developing situation globally. In this way, policies were established and communications prepared proactively, which enabled our global mobility to be maintained whilst observing appropriate safety and precautionary measures.

Although some employees continued to work onsite during 2020, many had to resort to performing their work tasks remotely. In order to accommodate this way of working, and ensure that the change of routine functioned smoothly, we provided employees with digital collaboration tools and support. Furthermore, guidelines and devices were provided to secure an appropriate working environment at their homes. A digital programme named #virtuallytogether was rapidly established to upskill employees and share tips and tricks for remote working and people management. The Board of Management announced that the company’s policies and working agreements will reflect the need for increased flexibility in remote working in the future. As a result, remote working policies will be established or strengthened across global locations, taking into account local country level legislation, as well as function and activity related requirements.

In 2020, the global employee engagement survey MyVoice was conducted. Its findings revealed that 40% of respondents felt that their well-being had been impacted by the pandemic, highlighting the need for a continued focus on Wärtsilä’s commitment to providing a healthy working environment that supports growth, well-being, and balance. Therefore, we developed a new well-being concept and vision based on five main pillars: Mental & Intellectual, Physical, Social, Emotional, and Nutrition & Sleep. The goal is to improve our status in all these areas through effective leadership, organisational means, designated programmes and activities, and a well-being focused culture, so that people feel safe and cared for. For this purpose, a global Wellbeing Hub was launched in 2020 that provides global content and guidelines on well-being, as well as links to all local country-level initiatives.

TALENT AND LEADERSHIP DEVELOPMENT

At Wärtsilä, equal opportunities and opportunities for professional and personal growth are core principles. The company empowers its employees by providing self-paced learning, and through encouraging people to drive their own career paths to stay relevant and thrive in a rapidly changing business environment. Recruiting and retaining the best talent enables Wärtsilä to be a valued business partner to its customers, and the employer of choice for current and future employees.

Starting from July 2020, we implemented a new operating model aimed at simplifying the organisation. The intention is to establish independent businesses with end-to-end responsibility, speed decision making, accelerate strategy execution, and increase clarity in roles and responsibilities with clear accountability. In setting up the new organisation, a large recruitment effort was conducted between May and July 2020. Approximately 450 vacancies were filled in the Marine Businesses and Global Support Functions. A strong emphasis was placed on ensuring business continuity through internal hiring and enhancing diversity. More than 90% of the appointments were from internal hires and 18% being female appointments.

Wärtsilä supports its line managers in their people development and leadership roles. Much focus is put on developing virtual learning

solutions to increase the flexibility and ease of access to learning, while saving both time and cost, and reducing the carbon impact of travelling, in line with our purpose. A leadership development programme, focused on creating a Wärtsilä culture that builds and sustains high performance, has been in place since 2019 for senior managers. The programme contains elements related to leading high performing teams, leadership and performance excellence, and customer centricity.

[The Growth Lab leadership development programme](#), provided for 15 Wärtsilä managers and future leaders selected on the basis of applications, also continued virtually. The participants selected three projects of strategic importance aimed at analysing and building future business opportunities and improving ways of working. These projects were approved by the Board of Management and further developed within global cross-functional teams. The outcomes were pitched to the Board of Directors.

“PEOPLE ARE AT THE HEART OF EVERYTHING WE DO. WE WANT TO ENABLE EVERYONE TO GROW, ACHIEVE BUSINESS GOALS AND LIVE THE WÄRTSILÄ PURPOSE. TOGETHER.”

Alid Dettke, Executive Vice President, Human Resources

Learning on the job, self-learning, mentoring, coaching, and job rotation are integral to the development of knowledge and competence within the company. Whilst employees are given formal classroom learning opportunities at all organisational levels, from induction for new employees to learning programmes for the company's top executives, 2020 has shown that virtual and informal learning opportunities are of growing importance. Wärtsilä employees attended a total of 19,741 formal learning days during 2020; an average of 1.1 formal learning days per employee. Additionally, and in line with living our purpose, there is a strong emphasis on developing virtual learning solutions, and providing learning on the job through new ways of working.

TRANSFORMING COMPANY CULTURE

Together with the company's business transformation initiatives, Wärtsilä promotes a company culture that is defined by a changing world. Wärtsilä's purpose drives all activities, and the company's values of "Energy, Excellence and Excitement" are strengthened by the diversity of its employees. Wärtsilä aims to capture opportunities and make things happen, to do things better than any of its competitors, and to foster openness, respect, and trust while creating an exciting work environment. A diverse workforce generates innovation, higher profits, has better complex problem-solving skills, and enables access to a larger talent pool. During Q1 2020, the company took steps to understand the current culture and to define the future culture ambition. A global culture survey was conducted, which collected 12,464 responses. This was further supported by management team workshops and employee focus groups across all levels, functions and geographies. The annual Wärtsilä Leaders' Forum was conducted virtually for the first time in September 2020, with culture transformation being the key theme on the agenda.

Wärtsilä embraces collaboration and co-creation in order to succeed in an increasingly complex and uncertain business environment, while maintaining clear individual accountability. Purposeful sharing and working transparently as one, brings value, both internally and externally. Exploring and adopting new ways of working that foster collaboration and sharing are part of the transparent and inclusive approach.

MyVoice, Wärtsilä's global employee engagement survey, enables all Wärtsilä employees to provide feedback. MyVoice has been conducted globally since 2004, and in 2020 was enhanced to respond to current needs. The survey covered 5 strategic subject areas: Engagement; Leadership; Change; Purpose, Values & Strategy, and COVID-19. The renewed survey provided a global set of questions, plus specifically tailored questions for businesses and functions, as well as more open-ended questions. MyVoice is conducted completely online, and is also available on mobile devices, and in 17 languages. More than 17,000 responses were collected in November 2020, representing a participation rate of 82.3%. In addition to this annual survey, which is applicable to all employees, pulse surveys by business or topic were also established during 2020. These promote a more regular and focused feedback loop.

PERFORMANCE EXCELLENCE

One of the essential elements of Wärtsilä's People Agenda is to embrace and develop performance excellence throughout the organisation. Coaching to achieve better performance through smart target setting, together with continuous and real-time feedback, is central to this aim.

A well-executed performance management process supports the reaching of business targets by translating business strategies into team and individual objectives. Each Wärtsilä employee needs to know and understand these strategies and their goals. More importantly, everyone needs to be aware of the main targets set for their own units, and the target areas related to their own work. Greater attention has been given to the quality and impact of the process by emphasising the importance of continuous feedback, clarifying expected behaviours, and creating opportunities for both professional and personal growth.

Good coverage of the annual development discussions has continued globally, with 91% coverage being achieved in 2020. Each employee receives performance feedback, and an evaluation based on their overall job performance, as well as a personal development plan for the future. Overall performance evaluation is one of the considerations in compensation decisions, and is in line with the principle of performance-based rewarding.

STRENGTHENING THE ALIGNMENT BETWEEN HUMAN RESOURCES AND THE BUSINESSES

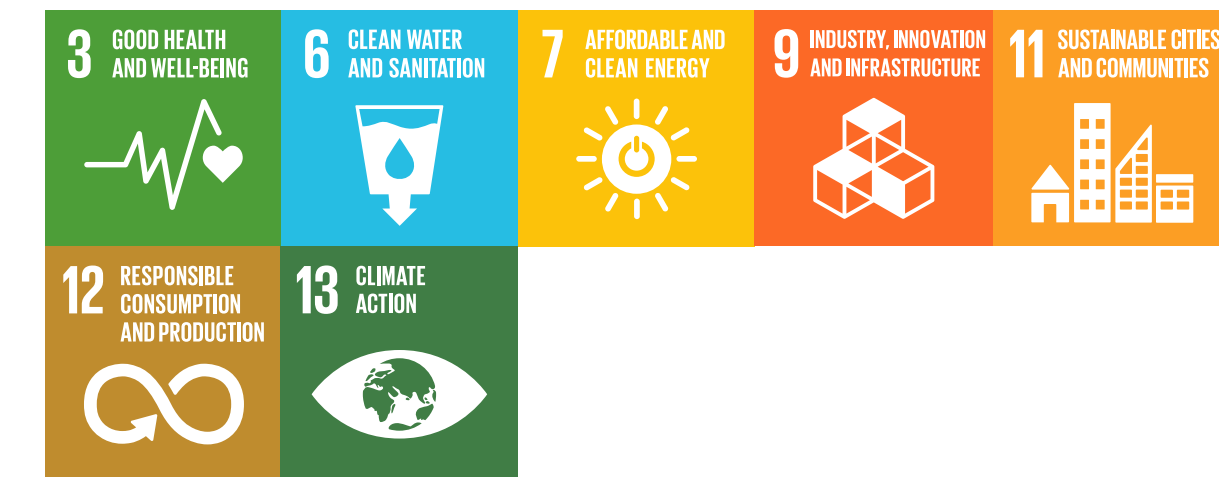
Wärtsilä Human Resources, powered by an effective operating model, aims to strengthen its strategic alignment with the Businesses and to become more people-centric. The ambition is to create a compelling employee experience by developing people processes, tools, and ways of working across national and organisational boundaries. This includes investing in technologies and tools that, for instance, enable quick access to online reports, employee information, and annual compensation planning for both local and multi-country teams, as well as embracing proactive change management. The ultimate goal is to make an impact by creating high performing teams and talent to enhance our competitive advantage.





ENVIRONMENTAL MANAGEMENT

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



One of the main objectives in our [purpose](#) of “enabling sustainable societies with smart technology” is to strive for a clean and low-emissions future. Our environmental management practices give full support to reaching this goal.

For Wärtsilä, environmental responsibility has two dimensions: products and operations. Most of the efforts to improve our environmental performance, including our operations, are conducted as part of the product development and improvement processes. This work is supported by operational measures, which are based on achieving high environmental standards and which seek constant improvement. We are also committed to continuous improvement in our environmental and social performance activities to avoid causing harm to those communities located close to our operations.

PRODUCT PERFORMANCE

In order to ensure our ability to respond to future regulatory requirements, we actively monitor legislative initiatives and changes in environmental legislation. The majority of international environmental policies and requirements for Wärtsilä’s products and solutions are set by the International Maritime Organization (IMO) and the International Finance Corporation (IFC) / World Bank. At the regional or national level, organisations such as the United Nations Economic Commission for Europe (UNECE), the European Union (EU), and emission standards such as in the USA, Germany, Japan, and India, are also important policy and regulatory directors for Wärtsilä products.

Wärtsilä offers solutions with zero or very low levels of emissions, and which comply to even the strictest local emission regulations, thereby contributing positively to air quality while minimising the impact on people’s health. More information concerning our sustainable solutions is described in the [R&D and innovation](#) section. We have also set internal [targets](#) for our product development. These include the reduction of greenhouse gas (GHG) emissions from gas engines by 15%, and an emphasis on continuous efficiency improvement and emissions reduction.

As our products have a long operational life, identifying the lifecycle impacts of our products is essential for understanding their total environmental impact. We manage the lifecycle of our products through their design, the [careful selection of suppliers](#), production methods, and by optimising transportation, maintenance and repairs during the products’ operational life. The reconditioning of products and components increases their reliable service life, while modernising improves the existing operational performance of installations and enables our customers to meet tightening regulatory requirements.

ENVIRONMENTAL MANAGEMENT IN WÄRTSILÄ

Legal requirements

IMO regulations
 World Bank Guidelines
 National and regional legislation

- Emission and noise abatement
- Waste reduction
- Wastewater treatment
- Material selection
- Efficiency and reliability
- Emission control and monitoring
- Fuel flexibility
- Smart technology
- System level optimisation
- Lifecycle approach
- Lifetime extensions

Customer requirements

Product specification

PRODUCT PERFORMANCE



OPERATIONAL PERFORMANCE

Legal requirements

Environmental legislation
 Environmental permits

- Energy and material efficiency
- Emission control
- Chemical management
- Waste management
- Water management
- Environmental monitoring
- Emergency response

Supply chain

Supplier requirements
 Supplier selection
 Supplier assessment
 Supplier management

UNDERSTANDING PRODUCT LIFECYCLE

To further understand the potential environmental impacts occurring during the lifecycle of its products, Wärtsilä conducted its latest Life Cycle Assessment (LCA)* in 2020 for a product system that included a Wärtsilä W10V31 marine diesel engine and the complementing Wärtsilä NO_x Reducer (NOR). The LCA was a cradle-to-grave assessment and took into account potential environmental impact categories, such as climate change, acidification, eutrophication, ozone depletion and photochemical ozone formation, resource depletion, water consumption and land use, eco- and human toxicity, and particulate matter.

The LCA compared several real-life operational profiles of the W31 engine on three vessel types. From this, it was reaffirmed that a clear majority of the environmental impacts occur in the use phase. In the case where the vessel was equipped with a Wärtsilä NOR, it reduced the impacts on human health and ecosystems in the operation stage by approximately 30%. The long-term

environmental and economic performance of the engine can be optimised with operation and maintenance solutions, as well as emission control technologies. Wärtsilä’s lifecycle upgrades maximise the engine’s energy efficiency, while smart marine solutions help in attaining the engines’ full potential.

By increasing our knowledge of the total environmental impacts of the solutions, we can identify ways to further reduce potential environmental impacts. We are actively researching future marine fuels, such as ammonia, which significantly reduce greenhouse gas emissions. In the future, when the environmental impacts of fuels will be substantially lower, the role of raw materials, energy, and logistics in other lifecycle stages will play a bigger role.

*LCA is a systematic tool used in product lifecycle management to understand where environmental impacts occur in the product’s lifecycle. The LCA was conducted in accordance with the EN-ISO 14040 and EN-ISO 14044 LCA standards, and the system was assumed to operate on light fuel oil (LFO) with a 0.1% sulphur content for 150,000 hours during 25 years.



OPERATIONAL PERFORMANCE

The continual improvement in environmental performance requires us to consistently work in a systematic way. This work is guided by our strategy and environmental targets, our [Code of Conduct](#), as well as policies relating to [Quality, Environment, Health and Safety](#), coordinated and monitored by the cross-business Wärtsilä EHSS (Environment, Health, Safety and Security) team. In developing our operations, processes and products, we endeavour to utilise the latest technologies available for improving efficiency in areas such as material and energy consumption, as well as for reducing and managing emissions and waste throughout the lifecycle of our products and services.

Operations and products are continuously developed and improved with the help of certified environmental management systems. The principle means is to apply certified Environmental, Health and Safety (EHS) management systems based on ISO 14001 and OHSAS 18001 / ISO 45001 in all Group companies, excluding those companies focusing purely on sales. Our EHS management systems cover all operations carried out by our subsidiaries. This promotes environmental protection and allows the reduction of adverse impacts to be carried out on a wide front.

Our EHS management system emphasises compliance with legal requirements, identifying and reducing environmental impacts and risks, training personnel and clearly defining their responsibilities, the full documentation of activities and procedures, actions to be taken in emergencies, and the continuous improvement of environmental performance. Our subsidiaries and business units set their own targets for covering the significant environmental aspects of their operations, and for monitoring the overall performance of their management systems. At the end of 2020, 55 Wärtsilä companies operated with a certified environmental management system. These certified environmental management systems cover roughly 87% of our total workforce.

> FIND MORE
 information and figures
 about our operational performance
 in the **Environmental data** section.

2020 ACCELERATES EUROPE'S ELECTRICITY TRANSITION BY A DECADE

An unprecedented year for our societies, due to the impact of the COVID-19 pandemic, 2020 also saw unforeseen development in the energy sector in response. A new tool developed by Wärtsilä to monitor the sector maps these effects across Europe in detail.

Annual coal-based power generation has fallen by around a fifth (17.9%) across the European Union (EU) and United Kingdom (UK) as of the end of November 2020, compared to 2019, as a result of the response to COVID-19, with renewable energy reaching a 40% share, according to the latest analysis by Wärtsilä.

In total, demand for electricity across the continent is down by 4.7% due to measures taken to combat COVID-19. The result is



an unprecedented fall in carbon emissions from the power sector, with emissions intensity falling by 10% compared to the same period (January to December) last year.

The analysis comes from the Wärtsilä Energy Transition Lab, a free-to-use data platform developed by Wärtsilä to help the industry, policy makers and the public understand the impact of COVID-19 on European electricity markets and analyse what this means for the future design and operation of its energy systems. Launched in April, the platform's goal is to help accelerate the transition to 100% renewables.

A glimpse into Europe's renewable energy future

"The impact of the COVID-19 crisis on European energy systems is extraordinary. We are seeing levels of renewable electricity that some people believed would cause systems to collapse, yet they haven't – in fact they are coping well. The question is, what does this mean for the future?" says **Björn Ullbro**, Vice President for Europe & Africa at Wärtsilä Energy Business.

"What we can see today is how our energy systems cope with much more renewable power – knowledge that will be invaluable to accelerate the energy transition. We are making this new platform freely available to support the energy industry to adapt and use the momentum this tragic crisis has created to deliver a better, cleaner energy system, faster."

The figures mark a dramatic shift in Europe's energy mix – one that was not anticipated to occur until the end of the decade. The impact of the COVID-19 crisis has effectively accelerated the energy transition in the short-term, providing a unique opportunity to see how energy systems function with far higher levels of renewables.

"Electricity demand across Europe has fallen due to the lockdown measures applied by governments to stop the spread of the coronavirus. However, total renewable generation has remained at pre-crisis levels with low electricity prices, combined with renewables-friendly policy measures, squeezing out fossil fuel power generation, especially coal. This sets the scene for the next decade of the energy transition," Ullbro adds.

Winds of change in Ireland and Spain

Considering the shift to a high renewable energy future, Ireland is an interesting European country to examine. It has been successfully operating an isolated power system with an increasing share of variable renewables, mainly wind energy, over the past years. In February 2020, a windy month in Ireland, renewables covered 66% of the generation (+14.5% compared to the last year).

Increasing the amount of variable renewables in a system further highlights the need for flexibility to quickly respond to the impacts of solar and wind variability and uncertainty. Wärtsilä Energy Transition Lab data suggests that the existing thermal fleet in Ireland is currently struggling with a high share of renewables. Simultaneously, the data shows the need for flexible assets, such as energy storage and gas generation having technical characteristics suited for peaking and balancing operation.

Another example can be highlighted from Spain, where in late-April 2020, we witnessed a week when the electricity demand was significantly lower (-12%) compared to the same period in 2019. At the same time, renewable generation was extraordinarily high (+45%) due to favourable wind and solar conditions. This increased the daily share of renewable generation up to

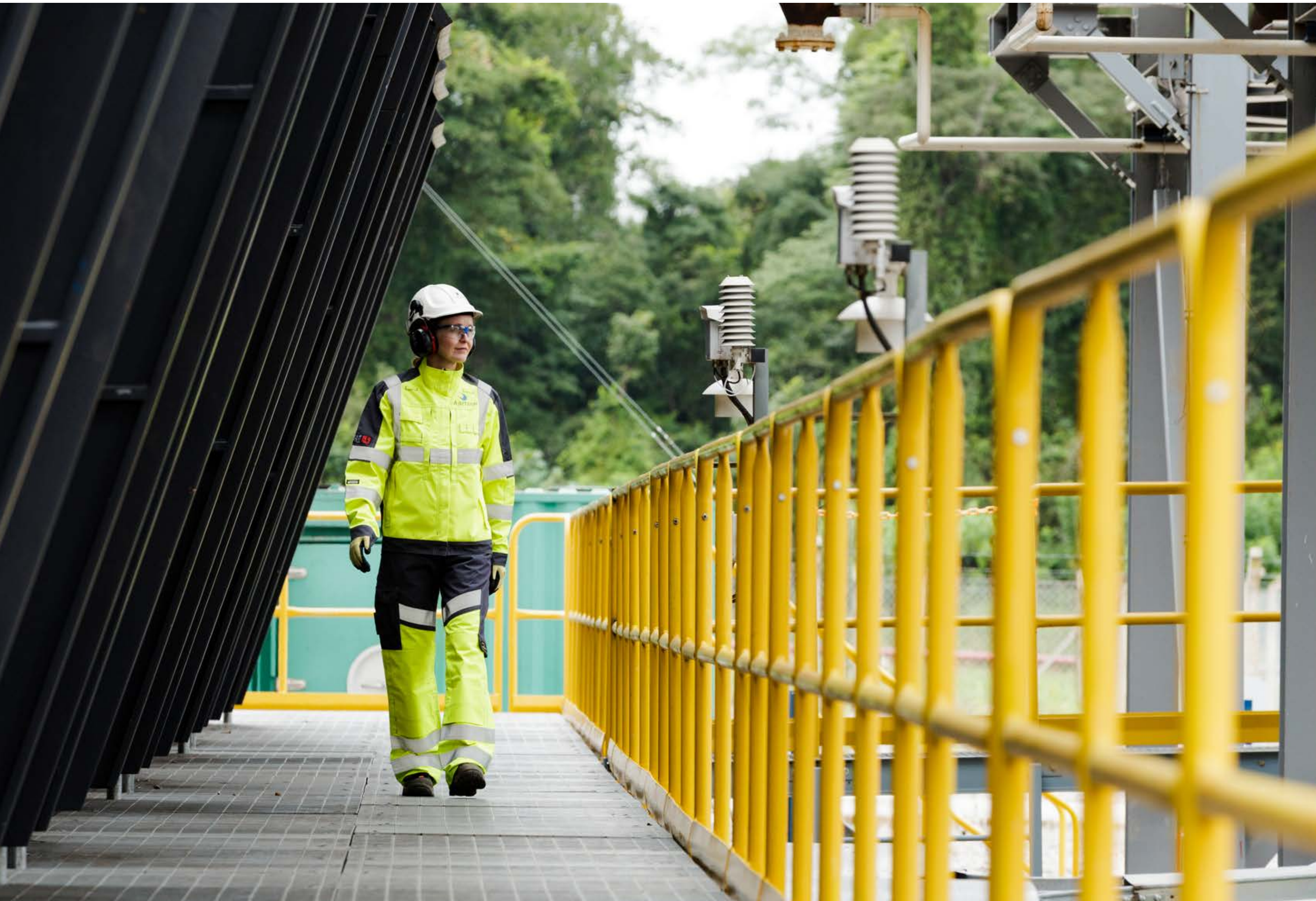
65% over the whole week in question. The surge of low-cost renewable energy from wind resources forced the electricity price to plummet. The drop in electricity price meant that thermal assets had to either shut down or sell electricity at loss. Coal has been most affected.

Transition Lab data suggests that not only coal, but also the modern combined cycle gas turbine fleet, designed to provide baseload electricity, seems to be redundant in a system built around renewables. Spain's whole gas-fired capacity (30 GW) has had a capacity factor of 21% in 2020 (29% in 2019), making them struggle for profitability. This is the reality already now with the renewable-rich energy system we have seen in 2019 and 2020: gas is used for peaking and flexibility, not baseload.

An industry first, the Wärtsilä Energy Transition Lab was specifically developed as an open-data platform for the energy industry to understand the impact of COVID-19 and help accelerate the energy transition. The tool provides detailed data on electricity generation, demand and pricing for all 27 EU countries and the UK, combining Entso-E data in a single, easy to use platform. It will also allow users to model how systems could operate in future with higher renewables, helping pinpoint problem areas and highlight where to focus policy and investment.

The Wärtsilä Energy Transition Lab can be accessed at:

www.wartsila.com/energy/transition-lab



OCCUPATIONAL HEALTH AND SAFETY

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Safety is a high priority for Wärtsilä, and we are committed to creating and maintaining a safe and healthy workplace for our employees and partners, wherever we operate. This is emphasised in our drive towards zero injuries by applying high standards of occupational health and safety, and by implementing action-orientated safety programmes and practices.

ENVIRONMENTAL, HEALTH AND SAFETY MANAGEMENT

Wärtsilä's occupational health and safety principles are defined in the company's [Code of Conduct](#), [Quality, Environmental, Health and Safety \(QEHS\) Policy](#), and in the directive on environment, health, and safety (EHS). Wärtsilä's subsidiaries are required to have a management system in place that conforms to both the QEHS Policy and the EHS directive. The main aspects of the management system relate to compliance with legislation, identifying and minimising occupational health and safety risks, personnel training, implementing effective health and safety programmes and instructions, recording and investigating occurred incidents, and the continual improvement of occupational health and safety performance. At the end of 2020, 55 Wärtsilä companies, representing roughly 88% of Wärtsilä's total workforce, were operating with a certified occupational health and safety management system in place.

In addition to the management system, Wärtsilä companies also apply occupational health and safety programmes as required by local legislation. These are normally developed by occupational health and safety committees made up of company management and personnel representatives. Altogether, 80% of all Wärtsilä companies currently have an occupational health and safety committee.

The indicators used to measure occupational health and safety performance include the number of accidents, the time of absence due to sickness, the frequency of accidents, and the number of near miss / hazard observation reports. Wärtsilä has set a [corporate level target of achieving zero injuries](#). This target is a long-term commitment from the company to strengthen the safety culture, and it requires actions from all Wärtsilä companies and employees. The safety performance of each company is monitored on a monthly basis, and the results are reviewed by Wärtsilä's Board of Management.

SAFETY MEASURES IN 2020

2020 was an exceptional year in terms of health and safety measures, as the highest priority was to protect our employees against COVID-19. Wärtsilä established global and local crisis management teams to prepare and implement pandemic prevention actions and control plans to safeguard our personnel. Meanwhile, our organization also continued applying traditional protective safety measures. As a highlight, the number of management safety walks increased by 4%, and near miss / hazard reporting was up by 20% compared to 2020. The majority of the management safety walks were carried out 'virtually' due to restrictions regarding physical presence at the workplaces. In 2020, the corporate lost-time injury frequency rate (LTIF) was 2.03. It was above the annual target of 1.60, but nevertheless represents a 10% improvement compared to 2019 (2.25).

IN 2020, OUR HIGHEST PRIORITY WAS TO PROTECT OUR EMPLOYEES AGAINST COVID-19, WHILE ADDRESSING WELL-BEING.

MITIGATING THE COVID-19 IMPACT THROUGH EMPLOYEE DIALOGUE, CONTINUOUS INSTRUCTIONS, AND GUIDELINES

The COVID-19 pandemic dominated our occupational health and safety operations during 2020. Employee dialogue, fact-based communication, clear instructions, and operational advisory measures were instrumental in mitigating its negative impact on our employees, global business operations, customers, and external stakeholders.

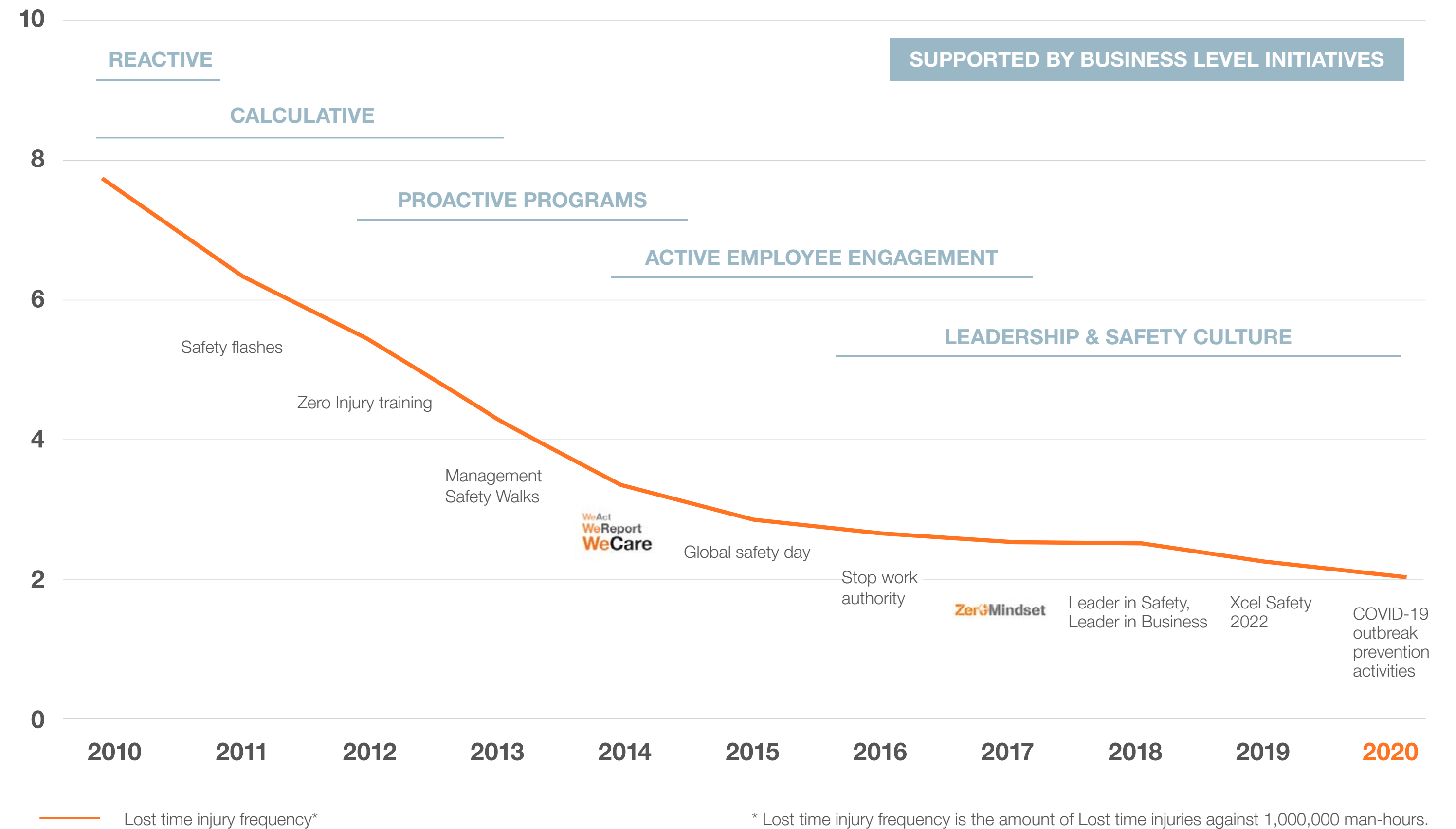
Our COVID-19 Global Crisis Response Team and local Incident Management Teams were activated in January 2020 to monitor the situation, to communicate and implement guidelines, and to robustly reinforce the health and safety measures for our 18,000 employees across 80 countries, while aligning activities with customer needs.

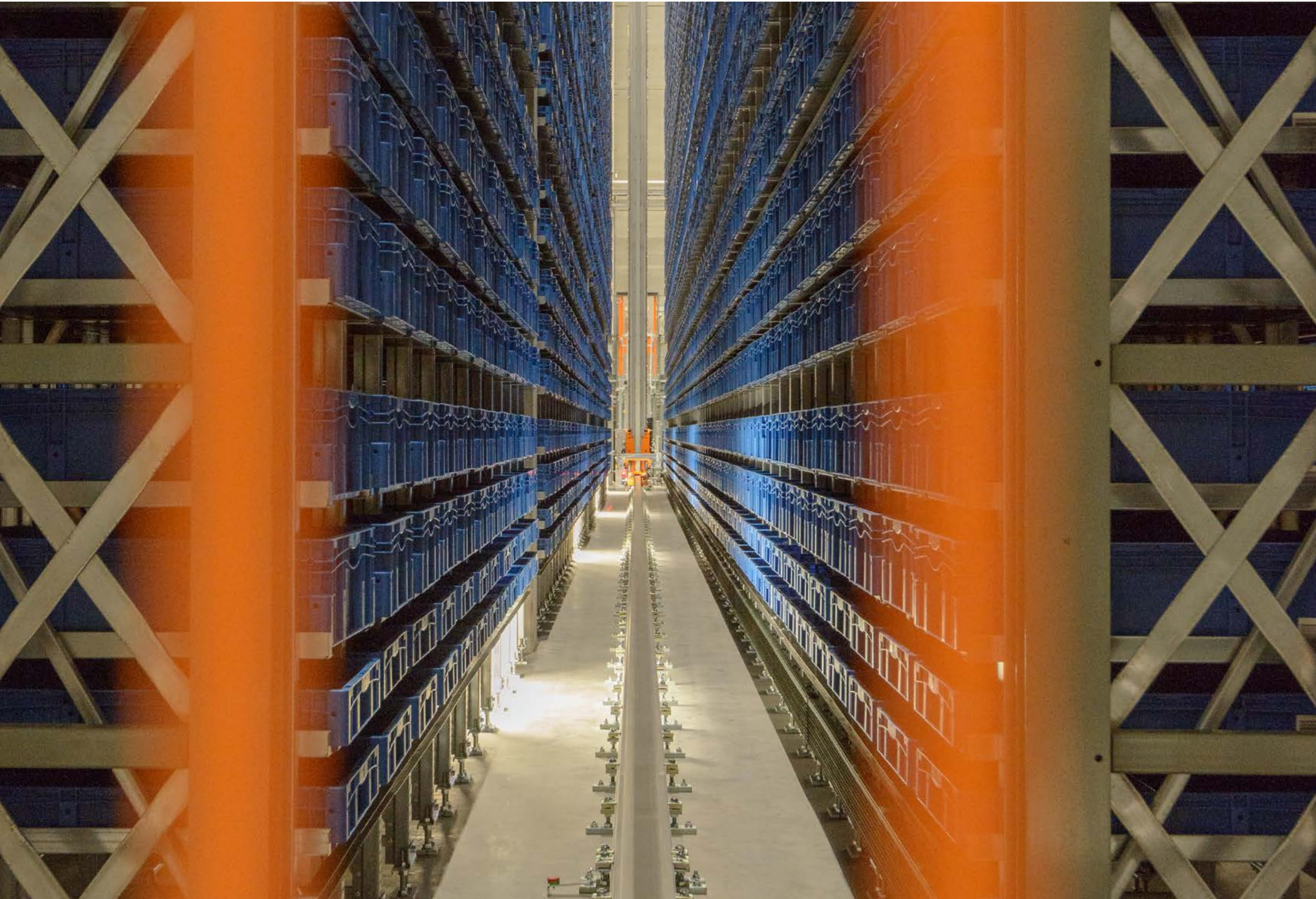
These actions consisted of health precautions, travel guidance and risk assessment, insurance and legal instructions, and demobilisation and evacuation. Physical measures, such as social distancing, face masks, testing support and remote work, plus online and off-site meetings, allowed employees to work in the safest possible manner. To address the impact of prolonged isolation and to strengthen our physical and mental wellbeing, various initiatives, including sharing best innovative practices and new ways of working and collaborating, helped in building resilience and team-spirit. Furthermore, online training sessions and active support and advice were provided for employees working from home, as well as for those working in factories or at customer sites and installations operating under strict precautions and quarantine measures.

In parallel, preparations were made to gradually and with due care secure a safe return to workplaces and normalised operations, where possible. In doing so, we adapted to local circumstances and regulations issued by the authorities in each respective country.

Introduced activity	Description
Lost time injury tracking and targets	Safety performance is reviewed on a monthly basis by the Board of Management, and targets are set on a yearly basis.
OSHAS 18001 Management systems	QEHS Management is certified based on the OHSAS 18001 standard within the business organisations.
Safety Flashes	Safety flash reports are lessons learned from occurred injuries and near misses, and are distributed globally within the organisation.
Zero Injury Training	Global training consists of e-learning (4h) and a practical workshop (4h).
Management Safety walks	A leadership tool that involves holding conversations on safety with employees.
Global Safety Day	An annual safety celebration that takes place throughout the Wärtsilä network. The theme changes every year.
Stop work authority	Wärtsilä QEHS policy authorises everybody to stop work in unsafe situations.
Leader in Safety, Leader in business	A leadership safety engagement training programme for all line managers and employees who have direct impact on front line operations. Duration is for one day.
Xcel Safety 2022	The Xcel Safety 2022 programme sets the challenging target of cutting the Lost Time Injury Frequency by 50% by the end of 2022. The programme has new elements, such as action-orientated safety management, actions to boost a positive safety culture, and empowerment of the safety network.
COVID-19 outbreak prevention activities	Activation of the Global Crisis Response Team and local Incident Management Teams with the responsibility of monitoring, communicating and implementing guidelines, and preparing prevention actions and control plans.

SAFETY EVOLUTION IN WÄRTSILÄ





SUPPLY CHAIN MANAGEMENT

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Suppliers and business partners are an important and integral part of the total value chain of our products and services. Wärtsilä has an extensive supply base with around 23,000 active suppliers, most of whom are located in Europe, where we have our main production units.

We work in close co-operation with our suppliers to build strong relations, share information, and to help ensure market-conforming lead times for component supplies. In addition, as part of our R&D activities, we collaborate with key suppliers, universities and research institutes to form strategic partnerships and develop new and existing solutions.

We expect our suppliers to conduct their businesses in compliance with the same high legal and ethical standards and business practices as ours. We monitor the actions of our suppliers and business partners, and have a stringent pre-qualification and monitoring programme for all sales intermediaries, which is complemented with a tailored e-learning programme.

WÄRTSILÄ SUPPLIER REQUIREMENTS

Wärtsilä has defined general supplier requirements for areas of compliance with legislation, environmental aspects, quality, occupational health and safety management, social performance, and cyber security. Compliance with these requirements are assessed, both in the selection and onboarding of new suppliers, as well as in the continuous supplier performance management process. Potential new suppliers must meet these requirements in order to receive approved supplier status. The general supplier requirements are also included in our standard supply agreements.

In addition to these general supplier requirements, we also have product- and service-specific requirements, which are monitored as part of the above-mentioned continuous supplier performance management process.

SUPPLIER ASSESSMENT

Suppliers are assessed through our Supplier Relationship Management tool, which is used for both existing and potential new suppliers during the onboarding process.

The onboarding process for potential new suppliers considers the risks that the offering, location, and level of compliance with Wärtsilä’s supplier requirements pose. Companies interested in becoming suppliers for Wärtsilä can submit a self-evaluation through the [Supplier Registration and Assessment](#) link on Wärtsilä’s website. Active, existing suppliers are equally evaluated as mentioned above. In addition, performance evaluations are conducted in the areas of quality, delivery reliability, and cost. In certain cases, we also evaluate the suppliers’ innovation level.

The supplier assessment comprises the following phases: basic assessment based on online questionnaires, detailed assessment with on-site audits, evaluation, and supplier rating. The Wärtsilä supply management team analyses the provided information and conducts further investigations where needed, identifying risks for which mitigation plans are made together with the supplier.

For low-risk suppliers, the basic assessment is typically sufficient to complete the supplier assessment. For medium and high-risk suppliers, a more detailed assessment with on-site audits is typically needed to

determine and mitigate potential risks. The purpose of the detailed assessment is to complement the basic risk assessment, determine the supplier’s capabilities and capacity, and to collect further information about the supplier. For new and existing suppliers of higher criticality and risk, on-site audits are conducted. These focus on the supplier’s management system, offered scope and geographical location, and are led by a qualified lead auditor. An independent or specialized auditor can be used in specific focus areas, such as human rights or cyber security. For any deficiency to meet the requirements, corrective actions are agreed on and completed before the audit is accepted.

Wärtsilä assesses and upgrades its supplier management system as necessary on a regular basis. In 2019, we launched the Supplier Relationship Management tool, a risk-based supplier assessment and management system, for existing suppliers, following its launch for new suppliers in 2018. Development and deployment of the system continued during 2020 and will continue in 2021.

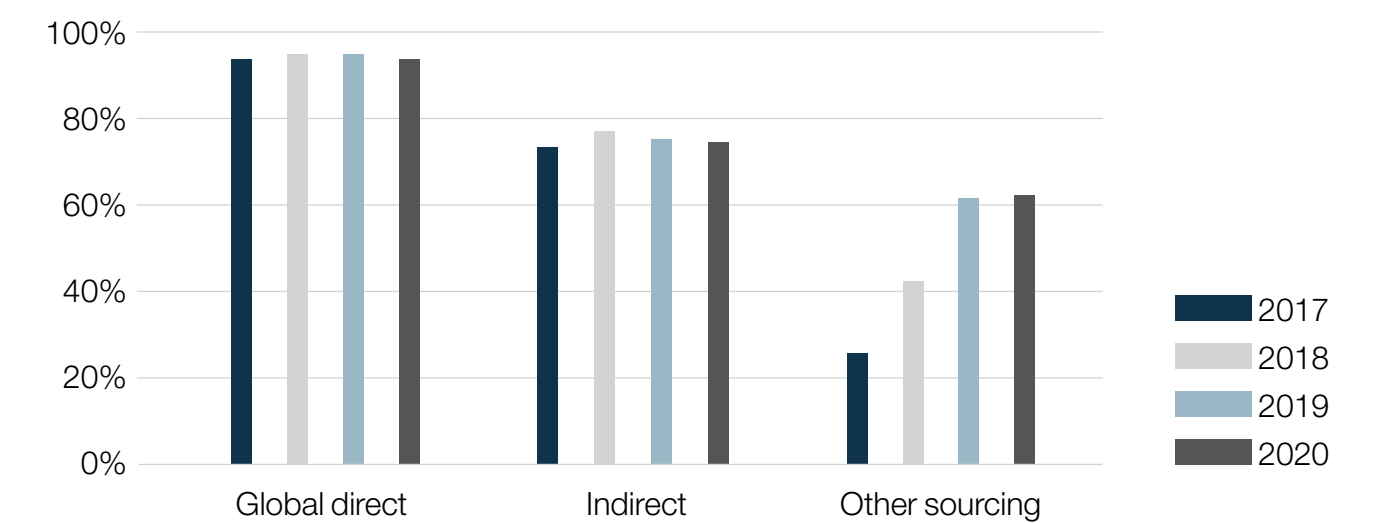
SUPPLIER RATING IN 2020

As a concluding part of the supplier evaluation, suppliers are rated. This rating is based on the result of the supplier assessment process and the supplier receives an approved, approved with remarks, or banned status. The rating is maintained regularly and reviewed based on changes in the supplier’s operations, organisation and performance. The performed supplier ratings are measured as coverage (%) of rated spend compared to total spend.

By the end of 2020, we had rated 717 out of our 1,199 global direct suppliers, which covers 94% of the related spend (with a target of 96%). The rating coverage of indirect suppliers’ spend was 74% (target 75%) and of other sourcing spend 62% (target 80%). For global direct suppliers and indirect suppliers, the rating coverage has remained firmly at or around the target levels. The coverage of other sourcing shows a strong increase over the past three years.

In 2020, 11 suppliers received banned status due to their failure to meet Wärtsilä’s requirements and for receiving a minimum score in one or more of the compliance, quality or sustainability areas.

Supplier rating coverage in spend in years 2017–2020



ENSURING SUPPLY CHAIN AVAILABILITY IN 2020

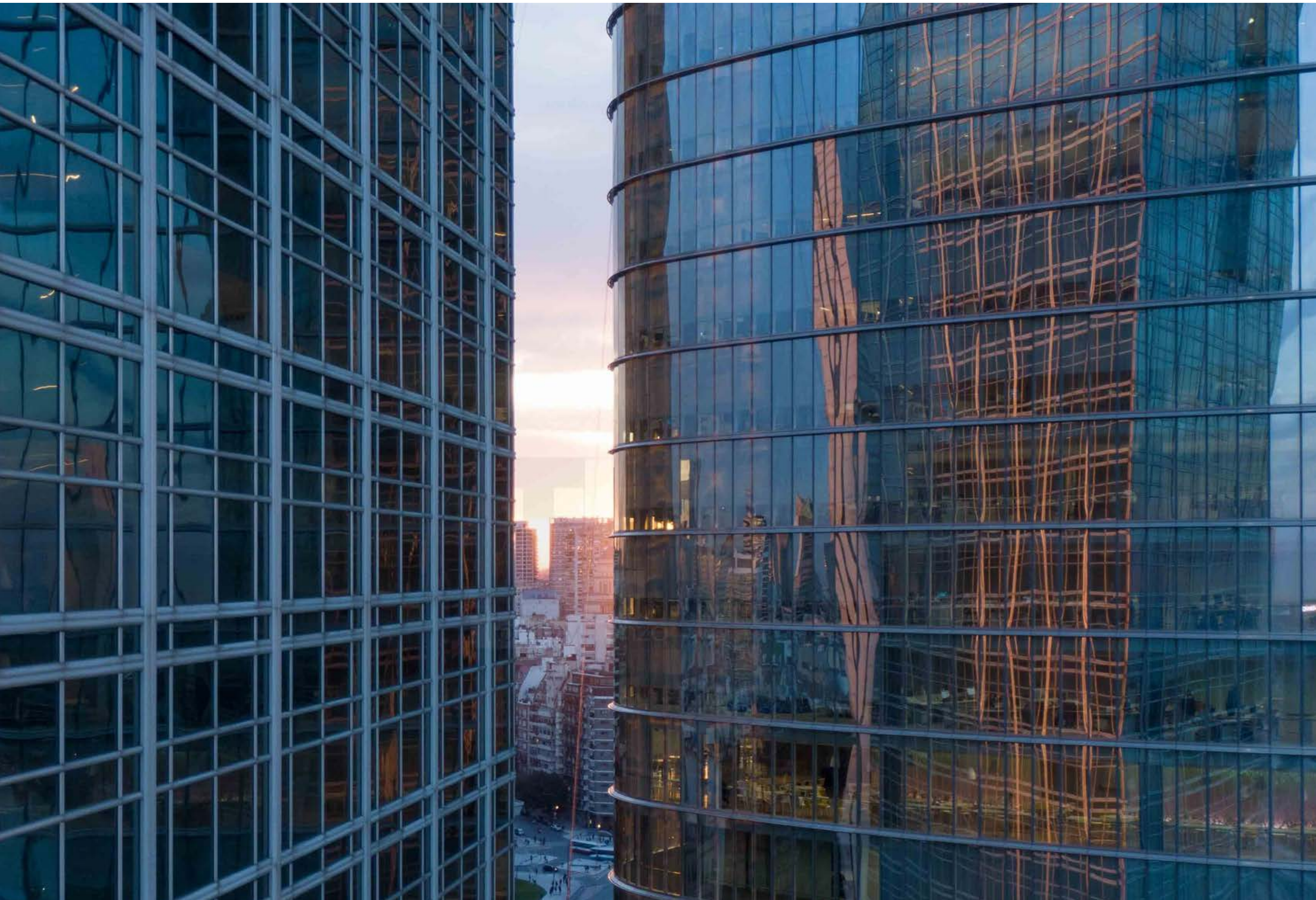
2020 was a challenging year for supply chains in most of the world’s companies. One of the main challenges has been to maintain operations while ensuring employees’ health and safety in on-site work facilities, such as production, where remote working was not possible. Furthermore, supply chain logistics has been impacted by lockdowns within and between countries, causing delays in shipments.

Wärtsilä took early actions to secure supply chain availability as far as possible. Together with suppliers, the first step was to form a sufficient understanding of the risks of reduced availability in the impacted countries. As COVID-19 spread to an increasing number of countries, actions were extended to more or less all concerned suppliers. In addition, a risk evaluation of the delivery capabilities of critical suppliers was made. Additional actions included increasing communications via virtual tools, preparing in certain cases second-source suppliers in countries with a lower lockdown risk, and optimising existing stock levels.

For Wärtsilä, the delivery reliability trend (i.e. on-time deliveries) increased during 2020. Delivery reliability for 2020, compared to 2019, showed an increase of more than 3 percentage points.

SUSTAINABILITY DATA





ECONOMIC

Wärtsilä's objective is to achieve profitable growth and create long-term value for its shareholders and society at large. Achieving this depends on our ability to satisfy the expectations of multiple stakeholders. These include providing customers with high-quality and environmentally sound products, solutions and services, building long-term partnerships with suppliers, offering employees competitive compensation and working conditions, as well as contributing to the well-being of the local communities in which we operate. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (GRI 201-1) 1/3

MEUR	2020	2019	2018	2017*	2016
Customers					
Net sales	4,604	5,170	5,174	4,911	4,801
Suppliers					
Cost of goods, materials, and services purchased	3,004	3,368	3,327	3,024	2,969
Value added	1,601	1,802	1,847	1,888	1,831
Distribution of value added					
Distributed to stakeholders	1,412	1,404	1,615	1,651	1,593
Employees					
Wages and salaries	984	1,028	954	1,000	939
Public sector					
Taxes and social dues	266	329	336	331	343
Creditors					
Net financial items	-43	-47	-40	-47	-53
Shareholder					
Dividends	118	284	284	272	256
Communities					
Donations given	1	1	1	1	2
For business development	189	114	232	237	238
Customers					

ECONOMIC PERFORMANCE
Financial implications and other risks and opportunities due to climate change (GRI 201-2)

Wärtsilä Italia S.p.A is the only subsidiary that falls within the scope of the EU Emission Trading Scheme (ETS) because of the heating plant of the factory. The EU ETS has not had any impact on the company's profitability. Wärtsilä's response to climate change is to develop and provide products, solutions, and services that enable our customers to reduce their greenhouse gas emissions. More information about Wärtsilä's solutions for reducing emissions can be found in the [R&D and innovation](#) section. The potential business risks related to climate change and Wärtsilä's products are presented under 'Climate change and sustainability risks' in the [Risks and risk management](#) section.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (GRI 201-1) 2/3

MEUR	2020	2019	2018	2017*	2016
Net sales (MEUR)	4,604	5,170	5,174	4,911	4,801
Net sales by market area (MEUR)					
Europe	1,542	1,690	1,485	1,526	1,581
Asia	1,570	1,968	1,867	1,933	1,774
Americas	1,077	1,098	1,245	1,132	1,039
Africa	245	222	283	221	313
Other	170	192	294	100	94
Suppliers					
Cost of goods, materials, and services purchased (MEUR)	3,004	3,368	3,327	3,024	2,969
Employees					
Salaries and wages (MEUR)	984	1,028	954	1,000	939
Salaries and wages by market area (MEUR)					
Europe	688	719	643	689	650
Asia	138	145	150	156	153
Americas	131	134	134	130	110
Africa	21	22	20	18	19
Other	7	8	7	7	7
Net sales/employee (TEUR)	252	271	274	275	262
Public sector					
Taxes and social dues (MEUR)	266	329	336	331	343
Taxes and social costs by market area (MEUR)					

Defined benefit plan obligations and other retirement plans (GRI 201-3)

The pension cover is based on the legislation and agreements in force in each country. In Finland, most of the pension obligations are covered by the Employees Pensions Act (TyEL). The largest defined benefit plans are used in Switzerland, Germany, the United Kingdom, and Sweden. Most of these defined benefit pension plans are managed by pension funds, and their assets are not included in the Group's assets. Wärtsilä's subsidiaries make their payments to pension funds in accordance with the local legislation and practices in each country. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans. More information on the Group's pension obligations can be found in the Financial Review, [Note 4.7. Pension obligations](#).

Financial assistance received from government (GRI 201-4)

Subsidies received (TEUR)	2020	2019	2018	2017	2016
	17,225	8,101	7,085	9,891	8,343

The value of the subsidies received in 2020 was EUR 17,225 thousand and they were among others related to R&D projects. The most contributing countries in 2020 were Singapore, Italy and Spain.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (GRI 201-1) 3/3

MEUR	2020	2019	2018	2017*	2016
Europe	197	223	252	236	246
Asia	35	47	38	44	45
Americas	25	43	33	38	47
Africa	14	19	10	12	5
Other	-5	-2	4	1	0
Subsidies received (TEUR)	17,225	8,101	7,085	9,891	8,343
Net financial items (MEUR)	-43	-47	-40	-47	-53
Community					
Donations given, Board of Directors (TEUR)	280	130	110	110	1365
Donations given, Wärtsilä companies (TEUR)	283	383	627	673	533

* Restated due to IFRS 15

MARKET PRESENCE
Ratios of standard entry level wage by gender compared to local minimum wage (GRI 202-1)

Wärtsilä applies and follows local employment legislation in all countries, and respects local collective labour agreements, which often define the minimum wage levels. In addition, entry level salaries are benchmarked against the market references by function and educational qualification. While laws and regulations determine the minimum level, the actual salaries often exceed these levels. The total compensation package for employees in each country is in line with the corporate rewarding guidelines, local market practices, and labour agreements. The base salary is set to meet market conditions, the demands of the job, and individual competence and performance.

Proportion of senior management hired from the local community (GRI 202-2)

Wärtsilä publishes all open vacancies internally, thus ensuring an equal opportunity to apply for Wärtsilä positions. If there is no specific reason to hire expatriates to the position, such as a competence transfer need from other countries, local residents are hired. This principle also applies to senior management positions. Senior management consists of global business and corporate management and local company management positions. Globally, 67% of Wärtsilä's senior management is locally hired, in other words from the same country as the Wärtsilä subsidiary is located.



ENVIRONMENT

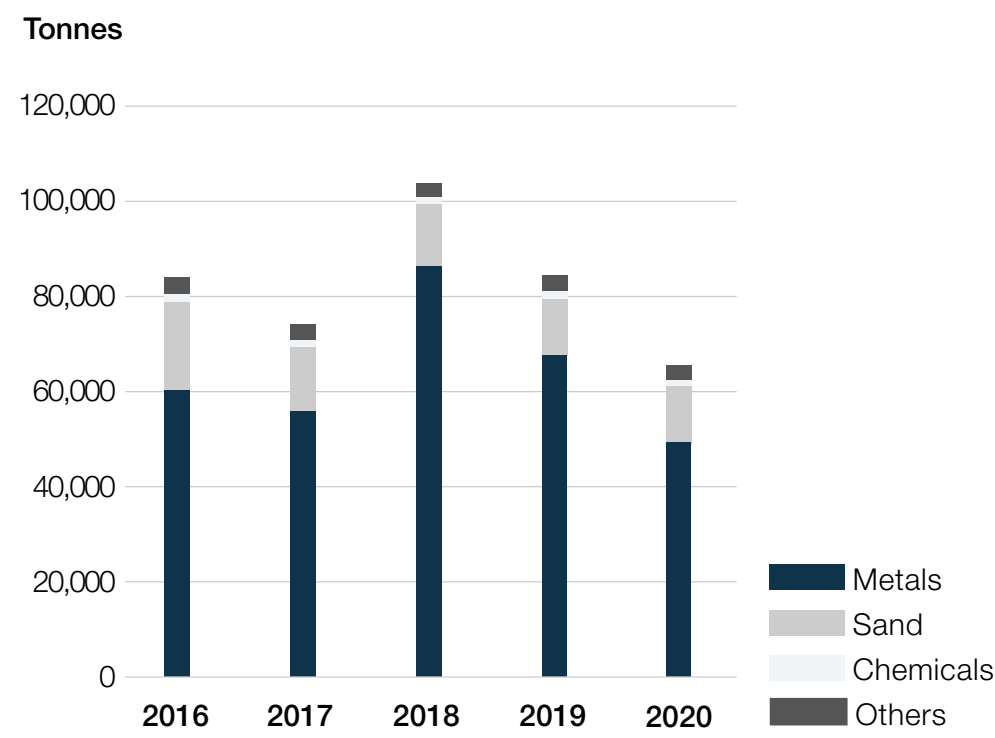
The environmental impacts of Wärtsilä's operations largely relate to manufacturing; the use of energy and natural resources, and thus also to the emissions that are produced by the manufacturing processes. In addition, product development requires the testing of products and individual components, which, alongside manufacturing, has an environmental impact. However, the positive impacts of product improvements on the environment far outweigh the negative impacts of testing, when taking the product's entire lifecycle into account.

MATERIALS

Materials used by weight or volume (GRI 301-1)

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys, and bronze. In 2020, the total material usage was 65,216 tons (84,081). The major material groups were various metals 75%, sand 18%, and various chemicals 2%.

Materials



Material usage (t)	2020	2019	2018	2017	2016
Metals	49,175	67,123	85,820	55,416	59,898
Sand	11,437	11,957	13,055	13,493	18,399
Chemicals	1,245	1,520	1,422	1,575	1,831
Others	3,359	3,482	3,035	3,255	3,601
Total	65,216	84,081	103,332	73,738	84,913

Recycled input materials used (GRI 301-2)

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys and bronze. Recycled material content of these metals vary depending on the material and supplier in question. Recycled material, such as end-of-life coins and bronze propellers, is used for example in the casting of new propellers.

ENERGY

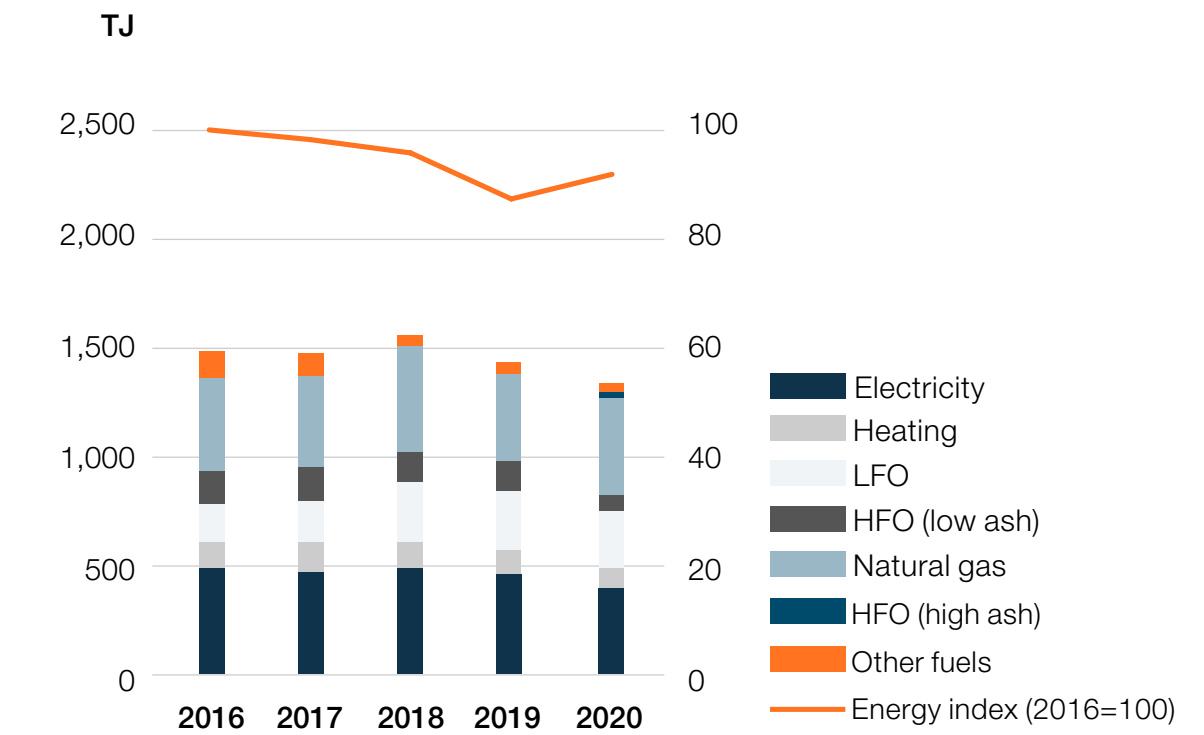
Energy consumption within the organisation (GRI 302-1)

The total energy consumption (in terajoules, TJ) includes the electricity, heat, and fuels used in Wärtsilä companies in recent years. The fuels are used mainly in engine testing, but also in heating, production, and transportation. In 2020, the fuels were from non-renewable sources.

Wärtsilä uses electricity in its manufacturing operations, for example in machining components, and in service workshops and offices. Both the electrical and the heat energy generated during engine test runs can be utilised. Wärtsilä's aim is to use the electrical energy for its own purposes while also selling part of this electrical energy to local power companies. Due to the nature of engine test runs, the production of electricity and the company's electricity demand are not equivalent; this allows the surplus energy to be sold to local power companies.

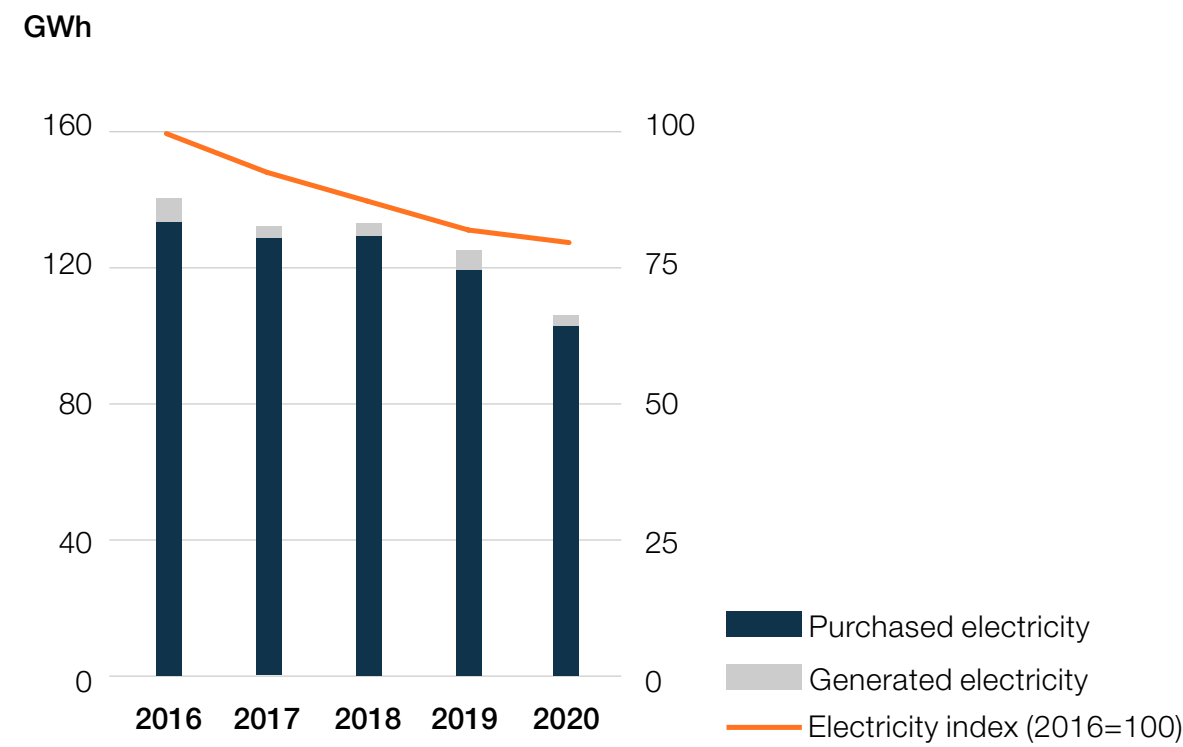
Heating for factories and offices accounts for most of Wärtsilä's consumption of heat energy. In several factories, the heat generated in engine test runs is used for heating. Some factories and offices are connected to a local district heating network, some have their own heating plant, and some use electricity for heating.

Annual energy consumption



Energy consumption	2020	2019	2018	2017	2016
Electricity consumption (MWh)	107,784	124,843	132,572	131,960	139,363
Purchased electricity	104,293	119,092	128,878	128,176	132,771
Generated electricity	3,491	5,751	3,694	3,784	6,592
Sold electricity (MWh)	33,543	32,812	32,019	28,066	23,620
Heating (MWh)	26,980	31,429	32,937	36,890	33,542
Heavy fuel oils (HFO) (t)	1,741	3,343	3,381	3,798	3,647
Light fuel oil (LFO) (t)	5,021	6,089	6,223	4,327	3,918
Natural gas (t)	8,976	8,064	9,783	8,393	8,614
Other fuels (t)	1,464	1,329	1,238	2,811	3,209
Total energy consumption (TJ)	1,319	1,404	1,538	1,477	1,471

Annual electricity consumption



Energy intensity (GRI 302-3)

Energy	2020	2019	2018	2017	2016
Total energy consumption (TJ / Net sales MEUR)	0.287	0.272	0.300	0.308	0.313

Energy savings (GWh)	2020	2019	2018	2017
Annual	4.9	0.5	2.0	0.9
Cumulative	8.3	3.4	2.9	0.9

Reduction of energy consumption (GRI 302-4)

From the beginning of 2017, Wärtsilä set an energy saving target to reduce energy consumption by at least 7% in terms of absolute consumption (GWh) from 2015 levels by 2025. By the fourth year of the target, permanent energy savings of 8.3 GWh have been reached, mainly by reducing electricity or heat consumption.

WATER

Water withdrawal (GRI 303-3, 303-5)

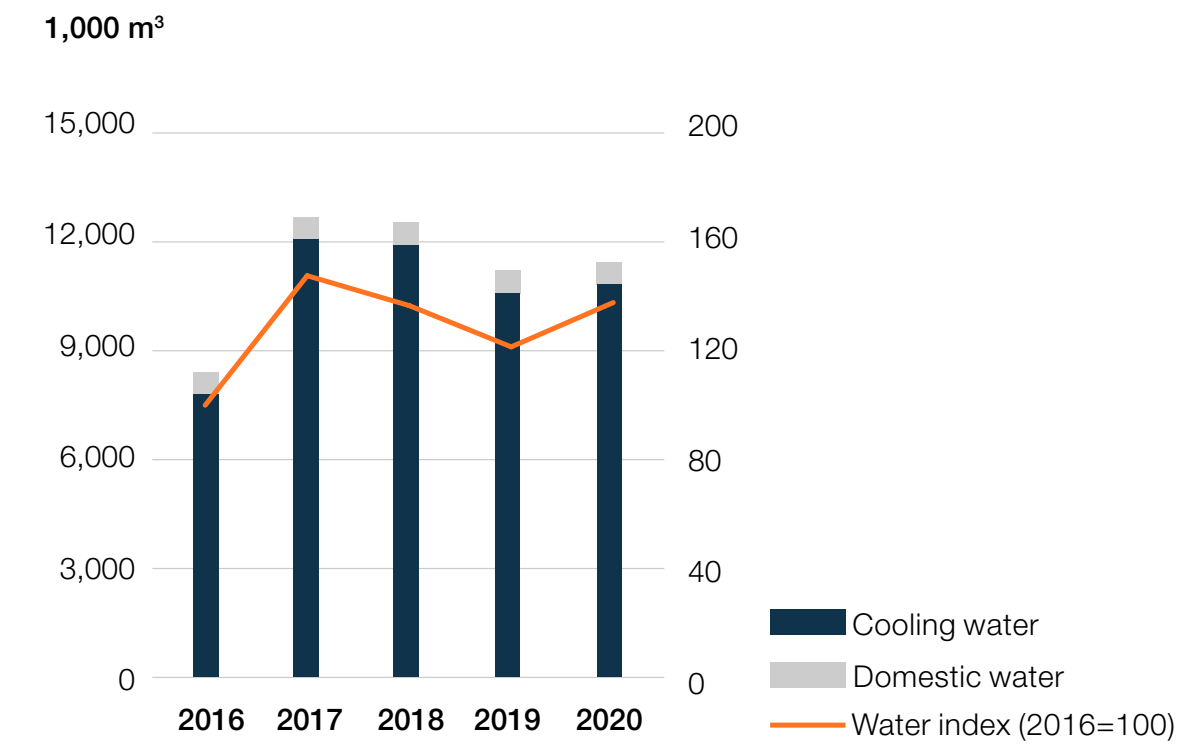
Wärtsilä’s water consumption can be divided into two categories: domestic use and cooling use. Domestic water is mainly used for sanitary purposes and by industrial equipment, such as machine tools and washing machines. Some factories also use domestic water to produce moulds or to fill in closed-loop cooling system needs. Wärtsilä uses seawater for its engine and process cooling needs.

Total annual water consumption split by the water withdrawal source: About 99% of cooling water comes from local surface watercourses, where only heat is released along with clean water, and about 1% of cooling water comes from municipal water utilities. Out of Wärtsilä’s total water consumption in 2020, about 95% was seawater for cooling purposes, about 5% was from municipal water supplies, and about 0.4% was directly withdrawn groundwater or rainwater. 40,514 m³, amounting to 0,4% of all water consumption took place in high water stress areas in accordance with the WRI Aqueduct classification.

Water sources significantly affected by withdrawal of water

No water source has been found to be significantly affected by any Wärtsilä subsidiary water withdrawal.

Annual water consumption



Water consumption (1,000 m³)	2020	2019	2018	2017	2016
Domestic water	568	648	652	631	613
Cooling water	10,805	10,621	11,954	12,118	7,831
Total	11,373	11,268	12,607	12,749	8,444

Percentage and total volume of water recycled and reused (GRI 303-3)

Wärtsilä Italia S.p.A. recycled 76,225m³ of water in 2020 by running it through a water treatment plant and reusing the cleaned water in production processes. The amount corresponds to roughly 22% of Wärtsilä Italia’s annual water consumption and 0.7% of Wärtsilä’s total water consumption in 2020. No other major water recycling processes are in use in Wärtsilä production facilities globally.

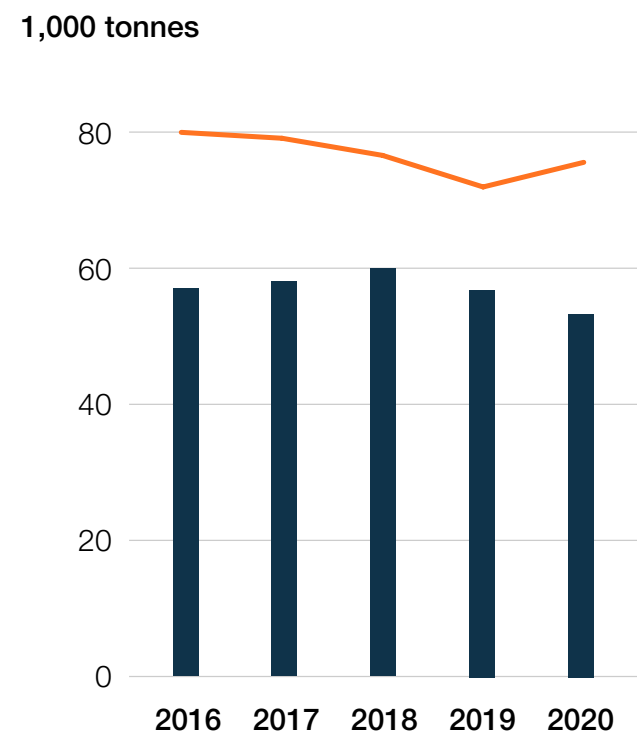
EMISSIONS

Greenhouse gas (GHG) emissions and intensity (GRI 305-1, 305-2, 305-3, 305-4)

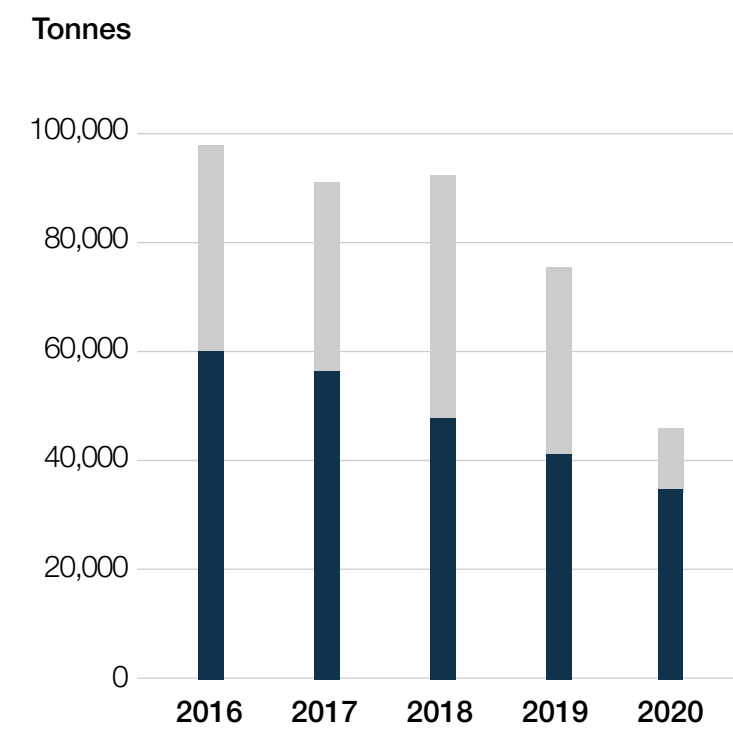
In addition to direct CO₂ emissions, Wärtsilä's operations generate indirect CO₂ emissions. In 2020, the calculated secondary CO₂e emissions (location-based method) were 34,561 tons (40,911) (from purchased electricity and heat) and the CO₂e emissions from flights totalled 11,191 tons (34,700). There were no biogenic CO₂ emissions in 2020.

Emissions	2020	2019	2018	2017	2016
Emissions of nitrogen oxides (t)	445	544	545	534	500
Emissions of sulphur oxides (t)	47	51	55	62	59
Emissions of total hydrocarbons (t)	147	139	164	131	116
Particulates (t)	6	7	7	8	9
Emissions of VOC (t)	31	37	45	36	30

Annual direct CO₂e emissions



Indirect CO₂e emissions



■ CO₂e
 — CO₂e index (2016=100)

■ Purchased electricity and heat
 ■ Flights

Reduction of greenhouse gas (GHG) emissions (GRI 305-5)

Wärtsilä has taken several measures to reduce its indirect CO₂ emissions. The energy efficiency commitment aims to reduce energy consumption and emissions. In addition, Wärtsilä's focus lies on reducing travelling by implementing a strict travel policy and by using virtual meeting concepts: Teams instant messaging, which enables live chats between two or more people, and Teams meetings, allowing multiple people to interact and share presentation material from personal computers, with a video conferencing option. In Wärtsilä, Teams meetings and video conferences are in everyday use. Approximately 5,500 Teams conferences are arranged daily. A traditional video conference system exists in 160 rooms in 49 countries, and as a new expanding solution, there are 130 Teams rooms in a few countries. In 2020, emissions from business flights were reduced by 68%, or 23,500 tons CO₂e compared to the previous year, mainly due to the COVID-19 pandemic.

GHG emissions (location-based)	2020	2019	2018	2017	2016
Direct (Scope 1) (tCO ₂ e)	52,911	56,568	59,949	57,998	57,355
Indirect (Scope 2) (tCO ₂ e)	34,561	40,911	47,347	56,002	59,697
Other indirect (Scope 3) (tCO ₂ e)	107,923	164,550	208,330	155,537	168,571
GHG emissions intensity (all)	42.6	50.8	61.5	56.1	60.8

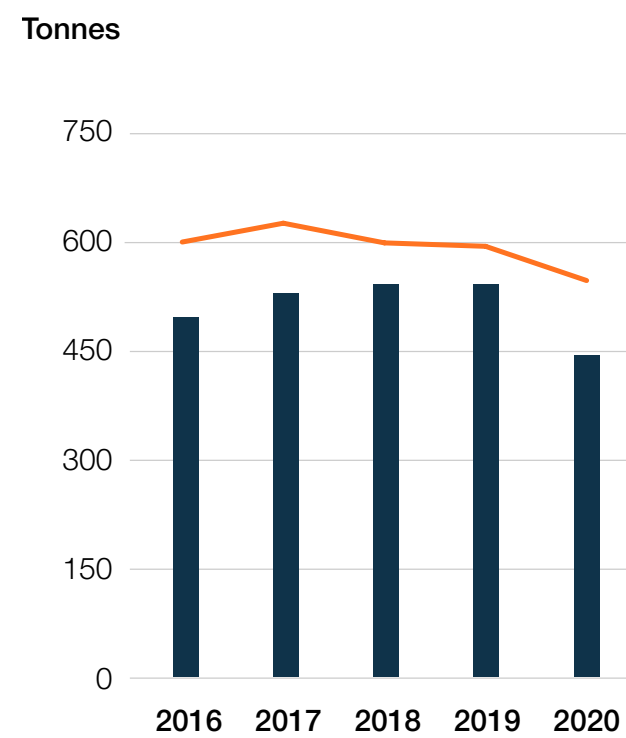
GHG emissions (market-based)	2020	2019	2018
Direct (Scope 1) (tCO ₂ e)	52,911	56,568	59,949
Indirect (Scope 2) (tCO ₂ e)	46,306	53,453	63,768
Other indirect (Scope 3) (tCO ₂ e)	104,976	160,960	204,065
GHG emissions intensity (all)	44.5	52.5	63.9

Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions (GRI 305-7)

Air emissions are mainly caused by test runs and the painting of completed engines or other Wärtsilä products. Test run emissions consist of nitrogen oxides (NO_x), sulphur dioxide (SO_x), carbon dioxides (CO₂) and particles, as well as small amounts of other emission components. The painting of engines and other Wärtsilä products generates VOC emissions (volatile organic compounds). Engine emissions are reduced through research and development, as well as product development and testing. These measures also generate emissions, but their results reduce the future emissions of manufactured engines.

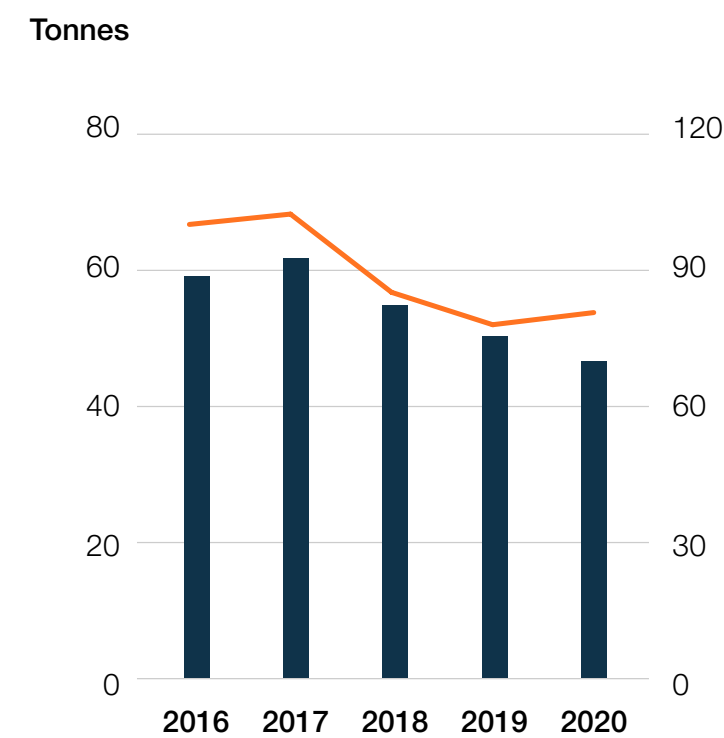
The primary sources of manufacturing noise are the engine test runs and the ventilation machinery on factory roofs. This noise is mostly low frequency and is therefore not easily detected by the human ear. Wärtsilä has specifically addressed the issue of noise protection using technical means and has succeeded in lowering noise levels considerably. However, noise abatement is a continuous need and requires regular monitoring.

Annual NO_x emissions



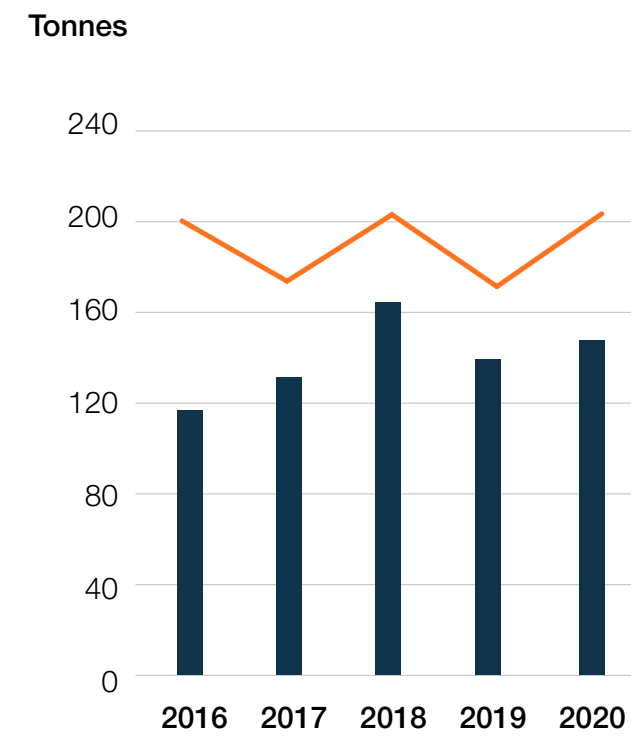
■ NO_x
 — NO_x index (2016=100)

Annual SO_x emissions



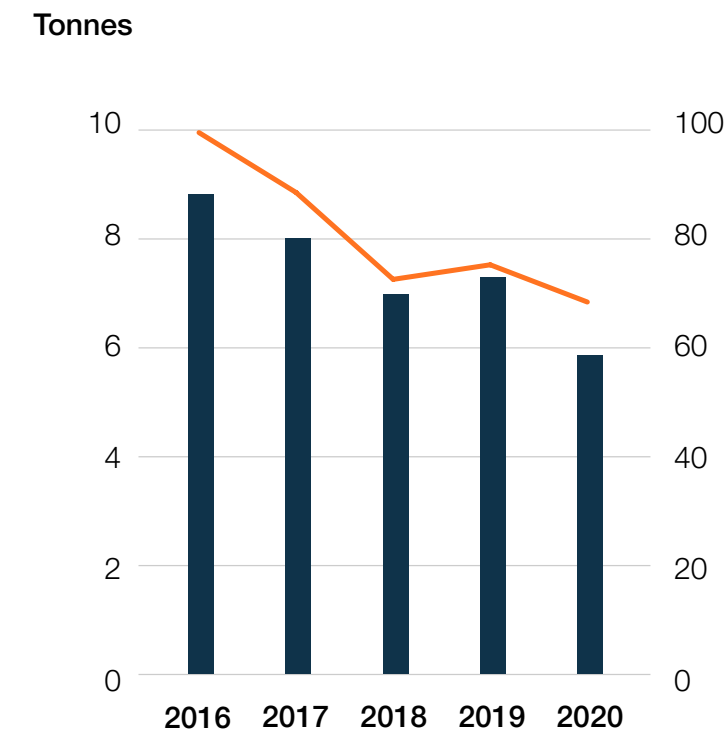
■ SO_x
 — SO_x index (2016=100)

Total hydrocarbons



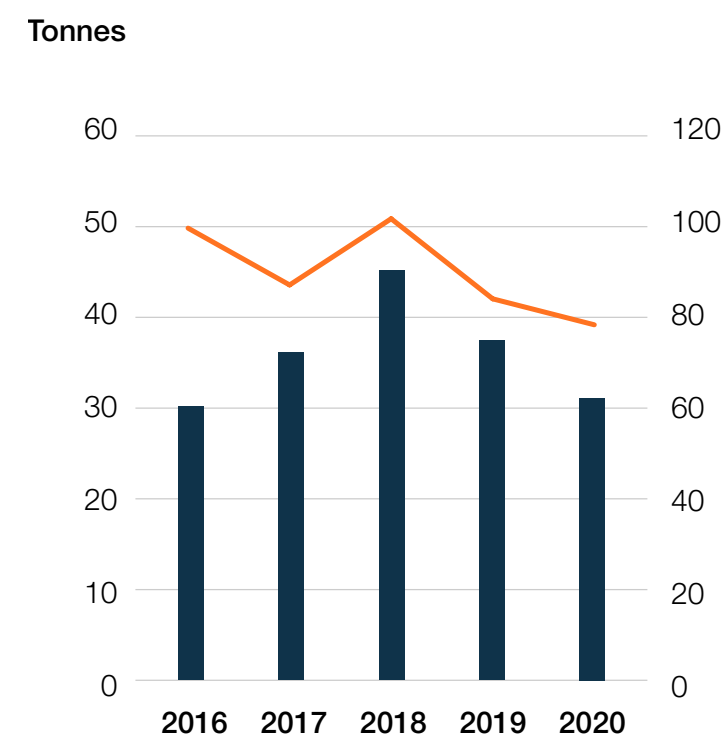
■ Total hydrocarbons
 — Hydrocarbon index (2016=100)

Annual particulate emissions



■ Particulate emissions
 — Particulate index (2016=100)

Annual VOC emissions



■ VOC
 — VOC index (2016=100)

EFFLUENTS AND WASTE

Water discharge by quality and destination (GRI 303-4, 306-1)

Wärtsilä uses seawater for its engine and process cooling needs. In this case, the cooling water system is kept separate so that only heat is released into the natural water system. Wastewater is sewerred and piped to the local wastewater treatment plant or treated on site before being discharged. If the effluent is not suitable for discharge, it is taken away for appropriate processing, for example to a hazardous waste treatment plant.

Several Wärtsilä subsidiaries have environmental permits that allow clean or properly treated water to be discharged into natural water bodies. Most of this discharge is clean cooling water, which is released back into local surface watercourse, releasing only heat.

In 2020, the total amount of water discharge was 11,266,979 m³.

2020 water discharge	Municipal sewer	Sea	River	Ground	Re-used by other entity
Amount (m ³)	148,280	10,805,837	301,362	11,501	0
% of total water discharge	1.32	95.9	2.7	0.1	0

Waste by type and disposal method (GRI 306-2)

Manufacturing activities generate various wastes. These are divided into two main categories: hazardous and non-hazardous wastes. Hazardous wastes include cutting fluids, various types of waste oil, paints and solvents, oily wastes, solid wastes, etc. Non-hazardous wastes include scrap metal, metal swarf, waste plastics, waste wood, domestic waste, cardboard, and paper waste. All Wärtsilä companies sort their waste according to local municipal regulations. Generally speaking, the main sorting categories are waste for recycling, waste for incineration, and waste for landfills.

Waste management in Wärtsilä has four aims, listed in their order of priority:

- to reduce the amount of waste generated in processes
- to use waste as a material
- to use waste as energy
- to dispose waste in an environmentally sound way

EXPENDITURES

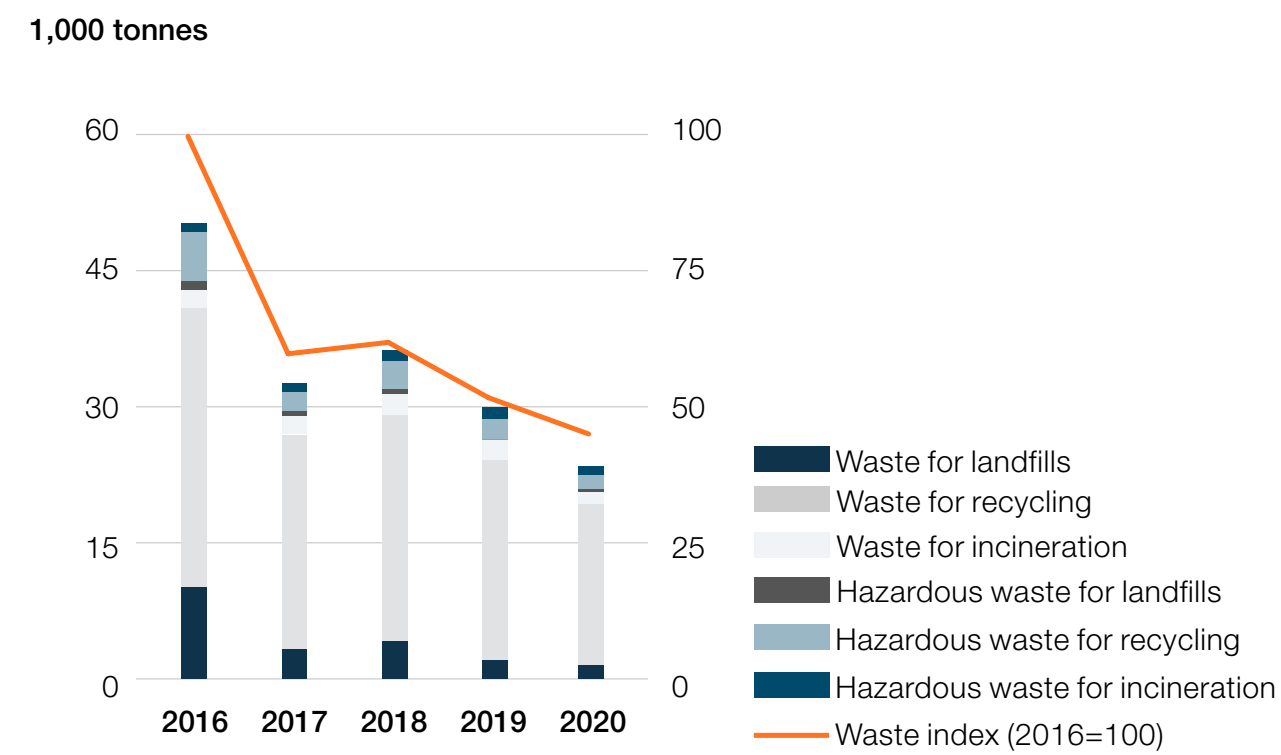
Total environmental protection expenditures and investments

Concerning Wärtsilä’s operations, we have defined expenditures as environmental expenditures if they are related to soil, water and air pollution control, waste management, environmental management, or noise control.

A substantial proportion of our investments in product development are targeted at securing environmental compliance, which provide short- and long-term benefits for the whole value chain, and ultimately for the environment.

Environmental costs (MEUR)	2020	2019	2018	2017	2016
Environmental capital expenditures	3.0	1.0	0.6	4.0	0.7
Environmental operating expenditures	3.1	3.8	4.0	3.8	4.0

Annual waste



Waste (t)	2020	2019	2018	2017	2016
Non-hazardous waste	20,683	26,439	31,240	28,928	42,663
Landfill	1,596	2,022	4,051	3,198	9,962
Recycling	17,517	22,133	24,791	23,647	30,695
Incineration	1,504	2,215	2,305	1,990	1,889
Biowaste	66	69	92	95	
Hazardous waste	2,687	3,847	4,785	3,651	7,357
Landfill	186	318	579	548	964
Recycling	1,581	2,261	3,063	2,113	5,470
Incineration	920	1,268	1,143	990	923
Total	23,370	30,287	36,025	32,580	50,020



SOCIAL

For Wärtsilä, social responsibility is strongly connected to being a responsible employer. We seek to offer our employees an interesting and exciting workplace where openness, respect, trust, equal opportunities, and scope for personal development prevail. Furthermore, we strive to offer a hazard-free working environment to our employees and contractors, and others working in different parts of the corporation. We have high ethical standards and we care about the communities in which we operate. Our business operations and relations with our stakeholders are governed by our Code of Conduct.

SIGNIFICANT CHANGES TO THE ORGANISATION AND ITS SUPPLY CHAIN IN 2020 (GRI 102-10)

On 5 March 2020, Wärtsilä announced the reorganisation of its Marine Business into three independent businesses. The change in organisational structure is reflected in Wärtsilä's financial reporting as of the second quarter of 2020. In the new organisational structure, Wärtsilä Marine Power, Wärtsilä Marine Systems, Wärtsilä Voyage, and Wärtsilä Energy constitute the reportable segments of the Group, while Wärtsilä Portfolio Business continues to be reported as other business activities.

In September, Wärtsilä announced the divestment of 100% of the shares in Wärtsilä JOVYATLAS GmbH to Jacob Waitz Industrie GmbH, a German based industry holding. The Wärtsilä JOVYATLAS offering consists of UPS systems, rectifiers, power inverters, frequency transformers, and resistors with related services. The company, which became part of Wärtsilä as a result of the acquisition of L-3 Communications MSI in 2015, is located in Jemgum in Germany and currently has some 125 employees. In 2019, its annual revenues were EUR 20 million. The divestment is driving Wärtsilä's focus on creating a stronger and simpler core business.

In October, Wärtsilä announced the divestment of 100% of the shares in Wärtsilä Valves Ltd to an affiliate of Evergreen Capital L.P., based in New York, USA. Its activities include engineering, assembly, testing, sales, and delivery of nickel aluminium bronze (NAB) and duplex valves for the marine, oil and gas, and energy markets. Additionally, it offers applications for Valves' products, including FPSO, petrochemical facilities, power generation, LNG, naval marine, marine services, waste water treatment plants, and pipelines. Wärtsilä Valves became part of Wärtsilä as a result of the Hamworthy acquisition in 2012. The company is located in Brough, UK and currently has approximately 65 employees. The annual revenues were approximately EUR 15 million in 2019.

In December, Wärtsilä closed the divestment of Wärtsilä ELAC Nautik GmbH (ELAC Nautik) to Cohort plc, a UK listed company, specialising in defence, security and related market sectors. ELAC Nautik became part of Wärtsilä as a result of the acquisition of L-3 Communications MSI in 2015. Its main market focus is on hydroacoustic products, including sonars, underwater communication and echo systems for small and medium sized military submarines. The company is located in Kiel, Germany and employs 125 people. The annual revenues were approximately EUR 20 million in 2019.

EMPLOYMENT

Information on employees and other workers in 2020 (GRI 102-8, GRI 401-1)

In addition to direct employment, Wärtsilä employed also indirectly an external workforce totalling of 4,610 man-years in subcontracting at its factories and units. The units located in Finland had a total personnel of 3,683 employees.

All in all, 946 employees left and 1,061 joined Wärtsilä globally during 2020 for different reasons. Wärtsilä had 17,792 employees at the end of 2020.

Benefits provided to full-time employees that are not provided to temporary or part-time employees (GRI 401-2)

In general, temporary and part-time employees are offered the same benefits as permanent employees. In some countries, eligibility is linked to the number of months or years of service – such differences are typically based on collective agreements according to local legislation.

LABOUR / MANAGEMENT RELATIONS

Minimum notice periods regarding operational changes (GRI 402-1)

Wärtsilä's way of working concerning minimum notice periods is described in the [Policy on human rights, equal opportunities and fair employment practices](#).

OCCUPATIONAL HEALTH AND SAFETY

Workers representation in formal joint management-worker health and safety committees

Wärtsilä companies apply occupational health and safety programmes as required by local legislation. These are normally developed by occupational health and safety committees consisting of representatives from both management and personnel. Altogether, 80% of Wärtsilä companies have an occupational health and safety committee covering in total 88% of Wärtsilä's employees.

Personnel	2020	2019	2018	2017	2016
Number of employees at the end of the year	17,792	18,795	19,293	18,065	18,011
Personnel by business					
Marine Power	8,355	8,820	-	-	-
Marine Systems	1,897	1,870	-	-	-
Voyage	1,915	1,889	-	-	-
Energy	4,888	5,137	-	-	-
Portfolio Business	737	1,080	-	-	-
Personnel by market area					
Europe	11,080	11,618	11,693	10,463	10,399
Asia	3,979	4,341	4,726	4,890	4,992
Americas	1,969	2,016	2,074	1,960	1,919
Other	764	820	801	753	701
Average age of employees	42.7	41.6	41.4	41.5	41.0
Permanent employees (%)	94	93	93	92	89
Temporary employees (%)	6	7	7	8	11
Full-time employees (%)	98	98	98	98	98
Part-time employees (%)	2	2	2	2	2
Employee turnover (resigned) (%)	5.6	6.7	5.7	5.3	5.3
Net employment creation	-1,001	-571	923	-213	-840

Number of employees by employment contract and gender in 2020	Permanent	Temporary
Total	16,744	1,049
Male	13,957	839
Female	2,786	210

Number of employees by employment contract and region in 2020	Permanent	Temporary
Europe	10,427	653
Asia	3,744	235
America	1,853	116
Other	719	45

Permanent employees by employment contract type and gender in 2020	Full-time	Part-time
Total	16,405	339
Male	13,675	283
Female	2,730	56

New employee hires in 2020	Employees	Rate (%)
Total	1,061	6.0
Gender		
Male	834	5.6
Female	227	7.6
Age group		
< 30 years	366	20.5
30–50	600	5.2
> 50 years	96	2.1
Market area		
Europe	649	5.9
Asia	200	5.0
Americas	166	8.4
Other	46	6.0

Employee turnover (resigned) in 2020	Employees	Rate (%)
Total	946	5.6
Gender		
Male	769	5.5
Female	177	6.4
Age group		
< 30 years	127	8.8
30–50	609	5.6
> 50 years	210	4.7
Market area		
Europe	649	6.0
Asia	154	4.5
Americas	90	4.6
Other	53	8.7

Work-related injuries (GRI 403-9)

The lost time injury frequency for 2020 was 2.03, which was 10% lower than in the previous year. Five Wärtsilä employees suffered a high-consequence work-related injury in 2020. There were no fatalities to Wärtsilä employees or contractor personnel. The most common types of work-related injuries in 2020 were slips and trips, caught between objects and or in machinery, hit by moving or dropping objects or pressure, manual overloading and contact with sharp objects.

Wärtsilä has a global hazard and near miss reporting system which captures high-potential work-related incidents. In 2020, Wärtsilä identified 244 (0.8% of all reported hazard / near miss cases) high-potential work-related incidents. Majority of these were related to fire risks, potential exposure to chemicals, heat and diseases, slip and fall hazards, potential of getting caught between objects and machinery, or hit by moving objects, as well as traffic related incidents.

Work-related ill health (GRI 403-10)

Wärtsilä employees constantly work close to running engines while conducting overhaul or testing activities, which exposes them to high levels of noise. Wärtsilä has occupational safety and health programmes in place to prevent hearing loss, including providing hearing protectors to those employees at risk of hearing loss or impairment. In 2020, there were in total three cases of occupational disease diagnosed, which is equivalent to 0.08 cases / million worked hours.

Injuries	2020	2019	2018	2017	2016
Number of total recordable injuries (excl. first aid cases)					
Employees	109	136	176	163	175
Contractors	26	37	48	-	-
Number of lost time injuries resulting in at least 1 day absence					
Employees	72	85	90	88	95
Contractors	14	20	35	-	-
Total recordable injuries / million working hours					
Employees	3.1	3.7	4.8	4.5	4.7
Contractors	3.3	3.4	4.0	-	-
Lost time injuries / million working hours					
Employees	2.0	2.3	2.5	2.5	2.6
Contractors	1.8	1.8	3.1	-	-
Absence rate, employees					
Absence due to illness (% of total working hours)	2.0	2.1	2.2	2.0	2.2
Absence due to lost time injury (% of total working hours)	0.07	0.07	0.11	0.13	0.12
Absence due to occupational diseases (% of total working hours)	0.0	0.0	0.0	0.0	0.0
Fatalities					
Number of fatalities, total	0	1	1	1	1
Employees	0	0	1	0	0
Contractors	0	1	0	1	1

TRAINING AND EDUCATION

Average hours of training per year per employee (GRI 404-1)

Wärtsilä's average number of training days in 2020 for male employees was 1.15 and for female employees 0.87.

Programs for upgrading employee skills and transition assistance programs (GRI 404-2)

Wärtsilä's programmes for skills management is described in the [People and culture](#) section. Wärtsilä offers a wide variety of internal training and learning opportunities for its employees, covering more than 20 training categories. These include topics such as engine technology, health and safety, language and culture, project management, environment, security, and leadership.

Training days/ employee	2020	2019	2018	2017	2016
All employees	1.1	2.10	2.20	2.20	3.00
Managers and superiors	1.1	2.10	2.90	3.50	3.70
White-collar employees	1.0	1.90	2.10	3.0	2.90
Blue-collar employees	1.3	2.30	2.10	2.0	3.0

Percentage of employees receiving regular performance and career development reviews (GRI 404-3)

Development discussions held annually	2020	2019	2018	2017	2016
Coverage %	91	91	96	96	96

DIVERSITY AND EQUAL OPPORTUNITY

Diversity of governance bodies and employees (GRI 405-1)

A diverse workforce generates higher profits, better complex problem-solving skills, and access to a larger talent pool. Wärtsilä's Diversity Initiative began in 2012 and is aimed at driving an inclusive corporate culture at all levels to meet both global and local requirements. By investing in diversity and supporting employees of varied gender, age, personality, and educational background, Wärtsilä becomes an even more attractive employer and a more valued business partner for its customers.

Diversity	2020	2019	2018	2017	2016
Male/female ratio (%)	83/17	83/17	83/17	84/16	84/16
Executive positions globally: male/female ratio (%)	80/20	83/17	87/13	89/11	89/11
Number of nationalities	139	140	137	136	134

Number of employees per age group in 2020	Employees	Ratio (%)
< 30 years	1,784	10.0
30–50	11,447	64.3
> 50 years	4,561	25.6

Members of the Board of Management (BoM) and Board of Directors (BoD) by age group in 2020	BoM (%)	BoD (%)
< 30 years	0	0
30–50	44.4	12.5
> 50 years	55.6	87.5

Members of the Board of Management (BoM) and Board of Directors (BoD) by gender in 2020	BoM (%)	BoD (%)
Female	22.2	37.5
Male	77.8	62.5

CUSTOMER SATISFACTION

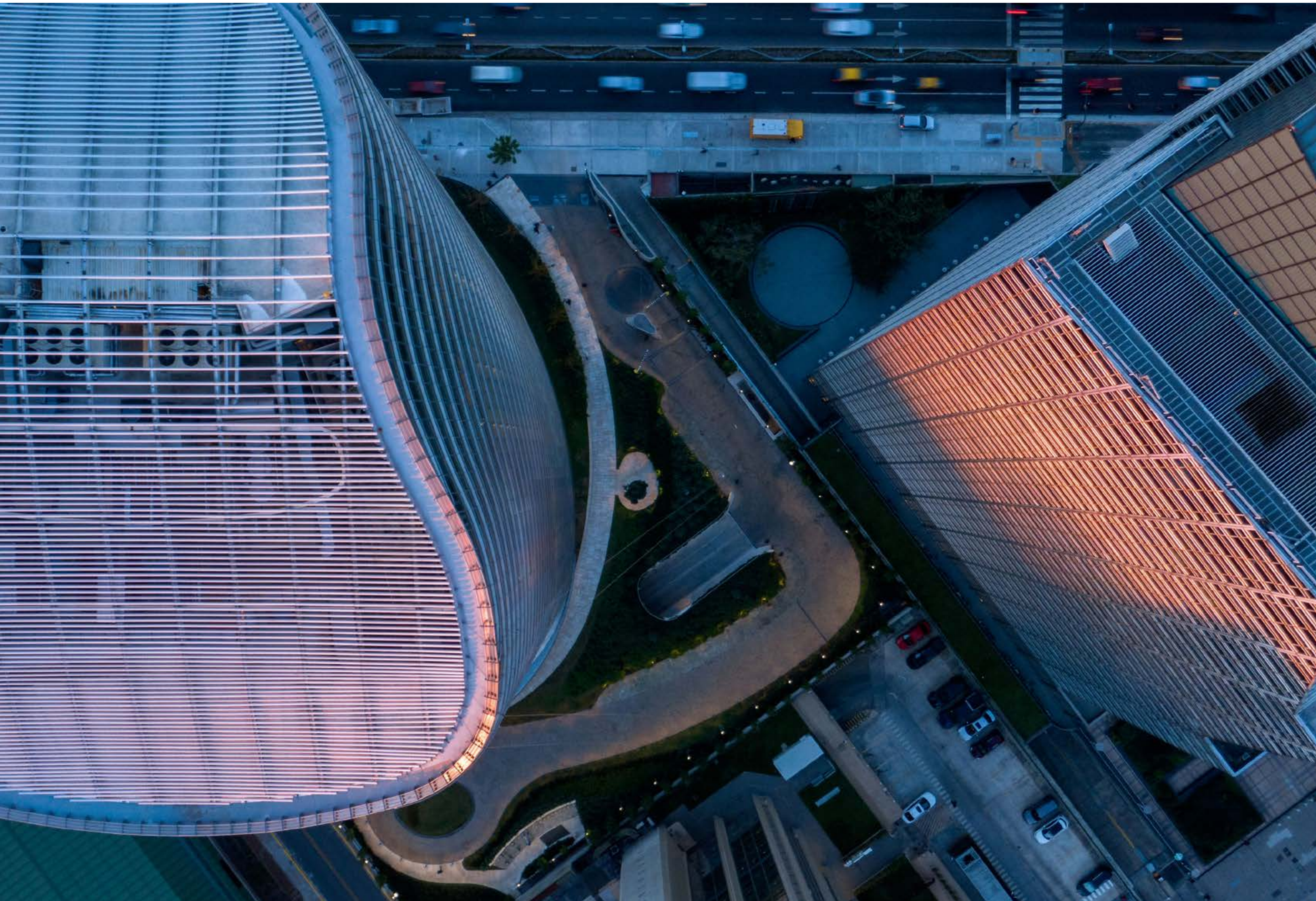
Results of surveys measuring customer satisfaction (GRI 102-43)

Wärtsilä always puts the needs of our customers first. We show this by carefully listening and acting upon our customers' feedback, at both operative and management levels. We place great emphasis on earning our customers' long-term trust by keeping its promises. While challenges may arise at any time in our business, relationships are strengthened by focusing on our customers. We observe our customers' perception of loyalty and satisfaction by applying a Net Promoter Score methodology, NPS. The results are monitored on a monthly basis and the last three years show considerable improvements.

Our customers' feedback on project deliveries and the operation of their installations, are welcomed. To know what works and where to improve, as well as understanding our customers' operational environments, is critical in developing the company's products and services. To ensure our customers' needs and expectations are met, we collect feedback during different events, activities, and interactions with our customers and act upon that feedback.

Customer loyalty	2020	2019	2018	2017
NET Promoter Score, NPS	59	59	53	45
Sample	3,332	2,787	3,356	4,875

Net promoter score scale is from -100 to 100.



COMPLIANCE

Wärtsilä is committed to carrying out its business in a sustainable way. In order to promote the long-term interests of our company and stakeholders, we strive to maintain the highest legal and ethical standards in all our business activities in accordance with our Code of Conduct, applicable laws and under the principles of good corporate citizenship. This requires all employees to act responsibly and with integrity and honesty.

Significant spills (GRI 306-3) and complaints

The number of disturbances, complaints, and incidents of non-compliance are presented in the table below. Reported disturbances typically cover incidents in which the Wärtsilä company concerned has been obliged to report the disturbance to the authorities.

The main environmental disturbances that occurred in Wärtsilä's business locations in 2020 were three minor fuel or oily water spills. These disturbances were investigated and the appropriate corrective actions to minimise the impact on the environment were taken in each case.

Non-compliance with environmental laws and regulations (GRI 307-1)

Wärtsilä France S.A.S. were found by the Regional Directorate for the Environment, Planning and Housing exceeding the limits in their environmental permit set for NO_x emissions to air as well as for chemical and biological oxygen consumption in water discharges after their water treatment plant in Surgeres. Both non-compliances are being investigated and corrective actions will be decided in the beginning of 2021.

Wärtsilä Voyage Limited was charged another fine of EUR 38 by the company that provides water supply and sanitation services to St. Petersburg, for the same reason as in 2019; recurrent surpassing of limits for chemical and biological oxygen consumption in the company's environmental permit for sewer discharge. Investigations to find a solution will continue after the company canteen can be re-opened after the closure due to COVID-19.

Incidents of discrimination and corrective actions taken, and non-compliance with laws and regulations in the social and economic area (GRI 406-1, GRI 419-1)

Wärtsilä is unaware of any cases of human rights being breached, discrimination, infringements of rights at work, or the use of forced or child labour. During the reporting period the following misconducts were realised:

Wärtsilä Korea Ltd. was charged a penalty fee of EUR 39,136 for not fulfilling its legal obligation to hire disabled persons as a minimum 5% of

the company's total employees. The company has mainly hired blue-collar employees, which limits the suitable job offerings for disabled people.

Wärtsilä American Hydro Corp. was charged a fine of EUR 8,275 for a safety violation related to a missing fall protection issued by the Alaska Occupational Safety & Health authority.

There are also the following ongoing, disputed non-compliance cases:

Wartsila India Ltd. has eight ongoing judicial proceedings, out of which six pertain to ex-employees' perceived improper labour and dismissal practices; and two pertain to dispute on applicability of certain provisions of employment legislations. It typically takes several years in India for these types of disputes to be concluded, and thus some of the proceedings have been ongoing already since 2016. Also, an ex-employee of the company has raised a judicial proceeding on the basis of alleged sexual harassment at workplace against three serving employees.

Wärtsilä Brasil Ltda. was issued a notice of violation by the Brazilian Ministry of Labour for not fulfilling its legal obligation to hire disabled persons as a minimum 3% of the company's total workforce. The company has filed an appeal against the resulting fine, process which

is ongoing. The company has specifically extended every vacancy advertisement to disabled people, whenever possible.

Non-compliance cases presented in previous reports

Wärtsilä Korea Ltd. was not able to fulfil its legal obligation to hire the legal minimum amount of disabled persons.

Wärtsilä Brasil Ltda. was issued a notice of violation in 2019 by the Brazilian Ministry of Labour for not fulfilling its legal obligation to hire disabled persons as a minimum 3% of the company's total workforce. The company has filed an appeal against the resulting fine. The process is still ongoing. The company has specifically extended every vacancy advertisement to disabled people, whenever possible.

Communication and training about anti-corruption policies and procedures, and Confirmed incidents of corruption and actions taken (GRI 205-2, 205-3)

During the review period, no instances of corruption or bribery were identified. Wärtsilä's [Anti-Corruption Policy](#) is public. Wärtsilä has arranged specifically tailored trainings to agents and other sales intermediaries.

Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices (GRI 206-1)

During the review period, no instances of anti-competitive behaviour were identified. Wärtsilä arranged, as it has earlier, a number of competition law training seminars in 2020 for relevant personnel in order to further promote their knowledge of competition laws, and thus ascertain full compliance with such laws.

Incidents of non-compliance concerning health and safety impacts of products and services, product and service information, marketing communications and customer privacy and data (GRI 416-2, GRI 417-2, GRI 417-3, GRI 418-1, GRI 419-1)

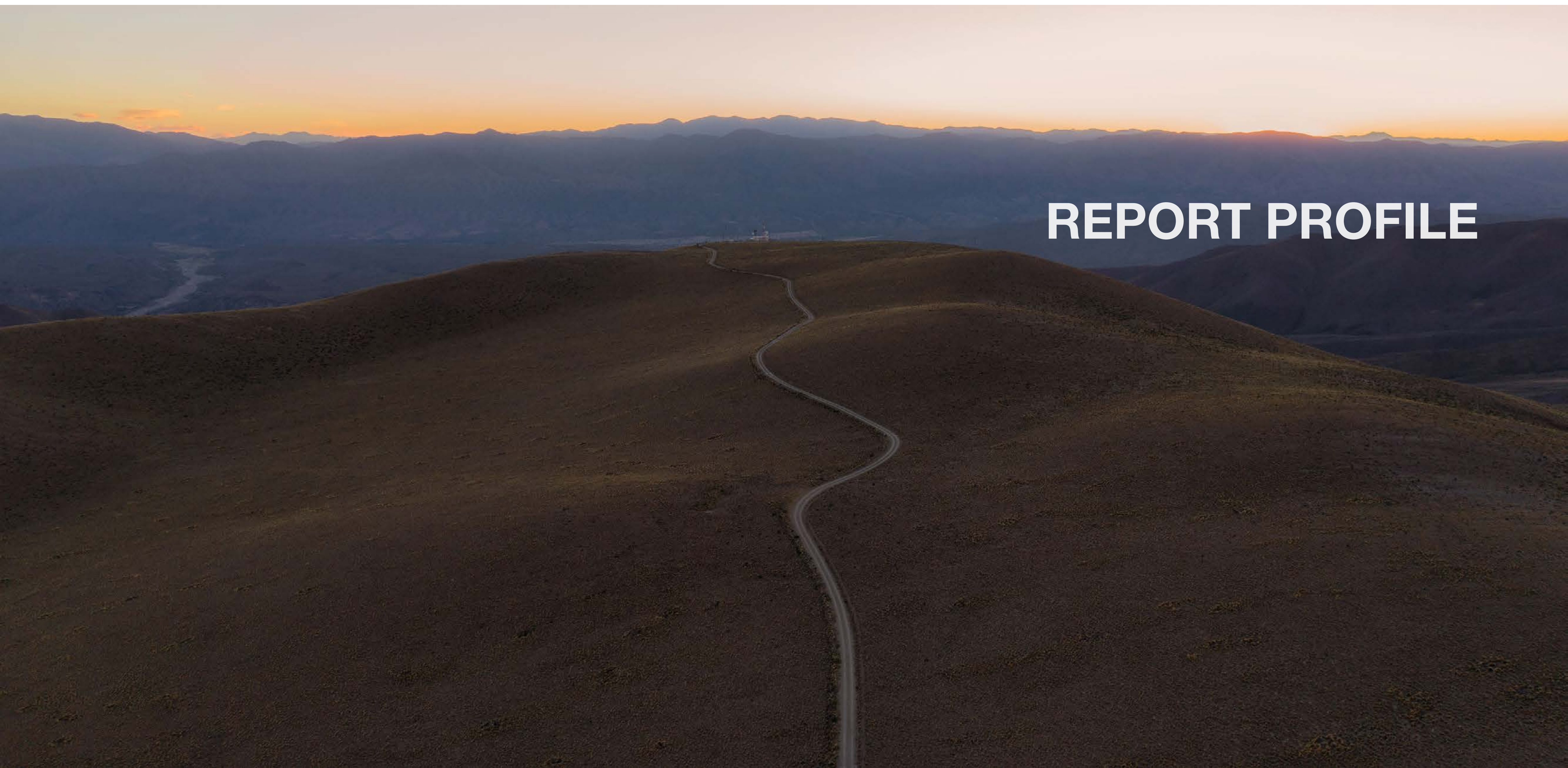
During the review period, no instances of non-compliance related to product health and safety or information liability, or customer privacy were identified.

Political contributions (GRI 415-1)

During 2020, Wärtsilä did not make any contributions to political parties.

Disturbances, complaints, and non-compliances	2020	2019	2018	2017	2016
Environmental					
Disturbances	3	4	5	6	12
Non-compliances	2	1	3	1	0
Complaints	1	0	1	1	2
Social					
Non-compliances	2	2	2	1	4
Fines of non-compliance cases (EUR)	47,449	38,327	25,962	22,575	37,860

REPORT PROFILE



DATA COLLECTION

Environmental performance data of the products is based on measured test results. Operational environmental and social performance data has been collected from Wärtsilä companies using a detailed questionnaire. Economic performance data is based mainly on audited financial accounts.

The sustainability data is collected and reported according to Wärtsilä's specific internal reporting guidelines that include all the definitions and instructions necessary for this purpose. Environmental expenditure and investments are reported in accordance with Eurostat instructions.

Each company has a nominated individual responsible for collection and consolidation of the data, and for its quality and reliability. The management of each company approves the data before it is consolidated at the Group level. The companies report their sustainability data using Wärtsilä's sustainability reporting system. The reported data is checked at both local and Group levels before its consolidation. The content of this Sustainability Report was reviewed and approved by Wärtsilä's Board of Management.

REPORT ASSURANCE

DNV GL Business Assurance Finland Oy Ab (DNV GL) has independently assessed the report against GRI Standards (2016, 2018). As part of the assurance process, DNV GL assesses local level data management and processes, evaluates the relevance and reliability of the data reported to headquarters, and assesses whether the reporting guidelines of Wärtsilä are well understood and applied. This is achieved through conducting site visits and video conferences. In 2020, the site visits were carried out through video conferencing with Wärtsilä India, Wärtsilä CME Zhenjiang Propeller Co., Ltd. (China), Wärtsilä France, Wartsila Marine and Power services Nigeria Ltd., and Wartsila Defense, Inc. (USA).

ADDITIONAL SOURCES OF INFORMATION

Wärtsilä has previously published the following reports:

Wärtsilä Environmental Report 2000
Wärtsilä Sustainability Report 2002
Wärtsilä Sustainability Report 2004
Wärtsilä Sustainability Report 2005
Wärtsilä Annual Report 2006
Wärtsilä Annual Report 2007
Wärtsilä Annual Report 2008
Wärtsilä Annual Report 2009
Wärtsilä Annual Report 2010
Wärtsilä Annual Report 2011
Wärtsilä Annual Report 2012
Wärtsilä Annual Report 2013
Wärtsilä Annual Report 2014
Wärtsilä Annual Report 2015
Wärtsilä Annual Report 2016
Wärtsilä Annual Report 2017
Wärtsilä Annual Report 2018
Wärtsilä Annual Report 2019

These reports and their sustainability data are available on [Wärtsilä's website](#).

SUSTAINABILITY REPORT PROJECT TEAM

Marko Vainikka Director, Corporate Relations and Sustainability,
marko.vainikka@wartsila.com

Harri Mäkelä Manager, Sustainability

Alina Pathan Manager, Corporate Relations



MATERIALITY ASSESSMENT

The materiality assessment is an essential part of the process for defining the sustainability reporting content by taking into account various stakeholder groups' views on the importance of different topics. We aim to update the assessment every second year.

IDENTIFIED MATERIAL TOPICS AND BOUNDARIES

Entities included in the organisation’s consolidated financial statements (GRI 102-45)

The entities included in Wärtsilä’s Consolidated Financial Statements are listed in the Notes to the Consolidated Financial Statements [6.5. Subsidiaries](#).

All the Group companies are included in Wärtsilä’s Sustainability reporting. The report covers Wärtsilä’s businesses. At the company level, the report includes the parent company and its subsidiaries as well as its manufacturing, service and sales units. The report excludes Wärtsilä’s associated companies, joint ventures, and supply chain companies.

Process for defining report content and aspect boundaries (GRI 102-46, 102-54)

Wärtsilä’s Sustainability Reporting 2020 is prepared according to the GRI (Global Reporting Initiative) Standards (2016) and the Reporting Principles for defining report content. This report has been prepared in accordance with the GRI Standards: Comprehensive option. This means that our reporting covers all the General Disclosures of the GRI Standards framework and all the sustainability topics we have identified as material in our operations.

In 2020, Wärtsilä updated the assessment of material sustainability topics. The process included an assessment of economic, environmental, and social topics and their impact to Wärtsilä’s business from the stakeholders’ point of view. Stakeholder views were collected through a questionnaire answered by 107 key stakeholder contacts in various Wärtsilä units and functions worldwide. The aim of the stakeholder questionnaire was to evaluate how important different sustainability topics are for assessments and decision-making of Wärtsilä’s stakeholders. Sustainability topics for the stakeholder evaluation were identified based on Wärtsilä’s previous

experience on material sustainability topics, industry peer review, and analysis of significant economic, environmental and social impacts in Wärtsilä’s value chain. The focus of the stakeholder assessment was on investors and financiers, major customers, personnel, local societies, and media.

The significance of identified topics was then analysed as a current or potential business impact on Wärtsilä. The business implications of identified sustainability topics were evaluated based on direct financial impacts as well as risks and opportunities. In addition, the level of internal policies or practices were used as an indication of the potential business impact.

As a result of the materiality assessment, the following GRI topics were identified as material for Wärtsilä:

- Emissions
- Environmental Compliance
- Economic Performance
- Training and education
- Occupational health and safety
- In addition to the identified material aspects, Wärtsilä discloses sustainability data on several other areas, because they are frequently asked by Wärtsilä’s stakeholders or they are considered important on the basis of continuity of sustainability reporting.

Topic boundaries for the identified material topics were then evaluated on the basis of the significance of their economic, environmental, and social impact on our value chain. A more detailed description of the topic boundaries and completeness of data collection for the identified material topics can be found in the GRI 103-1-b and GRI 103-1-c, Topic boundary within the organisation and Topic boundary outside the organisation.

Material topics (GRI 102-47)

From a sustainability impact point of view, product related environmental issues are the most significant for Wärtsilä. The use of Wärtsilä’s products has an environmental impact both locally and globally. Other dimensions of sustainability mainly have a local impact.

Sustainability impact	Local	Global
Economic	■	
Environmental		
Product related	■	■
Operational	■	
Social	■	

The following GRI topics have been identified as material for Wärtsilä's sustainability reporting:

Category	Topics	Identified material topic for Wärtsilä, reported in accordance with GRI Standards	Other topics included in Wärtsilä Sustainability Reporting	Excluded from Wärtsilä Sustainability Reporting
Economic	Economic performance	■		
	Market presence		■	
	Indirect economic impacts			■
	Procurement practices			■
	Anti-corruption			■
	Anti-competitive behaviour		■	
	Tax			■
Environmental	Materials		■	
	Energy		■	
	Water and effluents		■	
	Biodiversity			■
	Emissions	■		
	Waste		■	
	Environmental Compliance	■		
	Supplier Environmental assessment		■	
Social	Employment		■	
	Labour/management relations		■	
	Occupational health and safety	■		
	Training and education	■		

Category	Topics	Identified material topic for Wärtsilä, reported in accordance with GRI Standards	Other topics included in Wärtsilä Sustainability Reporting	Excluded from Wärtsilä Sustainability Reporting
	Diversity and equal opportunity		■	
	Non-discrimination		■	
	Freedom of association		■	
	Child Labour		■	
	Forced or compulsory labour		■	
	Security practices			■
	Rights of indigenous people			■
	Human rights assessment			■
	Local communities			■
	Supplier social assessment		■	
	Public policy		■	
	Customer health and safety		■	
	Marketing and labelling		■	
	Customer privacy		■	
	Socioeconomic compliance		■	

Wärtsilä's sustainability reporting provides a full disclosure of the management approach, relevant general disclosures and material topic-specific disclosures defined by the GRI Standards.

Topic boundary within the organisation (103-1-b and 103-1-c)

The topic boundary for the material topics is all Wärtsilä companies. The economic performance data covers all Wärtsilä companies. The data on environmental and social performance covers all Wärtsilä companies except the following:

- LOCK-N-STITCH Inc.
- Ships Electronic Services Ltd.
- Wartsila Defence Solutions Ltd.

These companies will be included in Wärtsilä's sustainability reporting in the forthcoming years. In principle, the aim is to include a new company that joins Wärtsilä in the first half of a year in the following year's reporting, and when joining in the second half of the year only after a full year. Wärtsilä's Sustainability Reporting is an integrated part of its annual reporting, and therefore Wärtsilä publishes its sustainability data annually.

Topic boundary outside the organisation (GRI 103-1-c)

Wärtsilä's Sustainability Report does not cover performance data collected outside the Group companies.

Explanation of the effect of any re-statements of information provided in earlier reports (GRI 102-48)

There are no major restatements of information provided in previous reports.

Significant changes from previous reporting periods (GRI 102-49)

There are no significant changes from previous reporting periods in the reporting topic boundaries. Historical data covers all entities that were part of the Group at the end of each reporting period.

Coverage of operational data

Operational data, % of Wärtsilä companies	2020	2019	2018	2017	2016
Economic	100	100	100	100	100
Environmental	96	96	97	86	93
Social	100	100	100	100	100

Operational data, % of personnel	2020	2019	2018	2017	2016
Economic	100	100	100	100	100
Environmental	98	99	93	96	98
Social	100	100	100	100	100

Operational data, % of product manufacturing	2020	2019	2018	2017	2016
Economic	100	100	100	100	100
Environmental	100	100	100	100	100
Social	100	100	100	100	100



REPORTING PRINCIPLES

Our reporting principles describe the economic, environmental and social performance data used as the basis for our sustainability reporting.

ECONOMIC PERFORMANCE DATA

The economic performance data is based on audited financial accounting and covers all Wärtsilä subsidiaries unless otherwise stated.

Donations: The data of this indicator included 15 major Wärtsilä subsidiaries and the parent company in 2020.

Subsidies: The data of this indicator included all Wärtsilä subsidiaries and the parent company in 2020.

The social costs for employees contribute to the funding of pensions, unemployment, and other social benefits that provide security and improve the quality of life for the company's employees and their families.

Senior management includes all employees with the highest job grade levels 12-16. At the end of 2020, this covered 88 employees.

ENVIRONMENTAL PERFORMANCE DATA

Materials include all the major material flows used in the production processes globally. The most material consuming product categories include engines, propellers, and propulsion systems.

Total energy consumption includes both direct and indirect energy usage. The direct energy usage includes the fuels used by Wärtsilä subsidiaries. Lower heating values (LHV) are used to calculate the energy consumption of fuels in joules. LHVs are based on information supplied by vendors or results of fuel analysis for engine testing and R&D purposes, and for other fuel consumption the source is the UK Department for Environment, Food and Rural Affairs (Defra). The indirect energy usage includes the purchased electricity and heat. Since the efficiency of purchased electricity and heat generation is not known, the energy conversion is done directly from the purchased values.

Fuel consumption data is based on either invoices or measured values.

Heat and electricity data is based on either invoices or measured values.

Energy intensity describes the ratio of total internal energy consumption divided by the total net sales of the subsidiaries included in the data gathering in a particular year (TJ/MEUR).

GHG emissions intensity describes the ratio of total greenhouse gas emissions (Scope 1, 2 and 3) divided by the total net sales of the subsidiaries included in the data gathering in a particular year (kgCO₂e/EUR).

Reduction of GHG emissions data is collected on a site level, based on permanent GHG emissions reduction measures, and either calculated or estimated (Scope 1 and 2).

Reduction of energy consumption data is collected on a site level, based on permanent energy saving actions, and either calculated or estimated.

Water consumption: The reported figures are based on either measured values or invoices. The cooling water usage might also be calculated from the heat load in some units.

Recycled water: The reported amount is the total measured recycled water used in Wärtsilä Italia S.p.A. Their water treatment plant provides reusable water for manufacturing processes.

Water discharge: The reported figures are based on either measured values or invoices. The cooling water discharge might also be calculated from the heat load in some units.

Emissions: The reported figures are mainly based on measured values, based on which specific emission factors are determined. The specific emission factors are determined for various fuels and engine types. The emissions of the heating boilers are either measured or calculated. For electricity consumption the indirect CO₂ emissions (location-based Scope 2) are calculated by using the emission factors from the International Energy Agency (IEA), and the indirect CO₂ emissions

(market-based Scope 2) are calculated by using the residual mix emission factors, where available (for Europe and USA), and for other countries the IEA emission factors. For district heating the indirect CO₂ emissions (Scope 2) are calculated by using the emission factors from Defra. The indirect CO₂ emissions (Scope 3) of energy consumption are calculated by using the emission factors from Defra. The indirect CO₂ emissions (Scope 3) of material consumption are calculated by using the emission factors from thinkstep's GaBi database. The CO₂ emissions of air travel (Scope 3) are based on calculations by Wärtsilä's travel agency and are based on Defra defined factors. The other than GHG emissions of vehicles are calculated by using the Technical Research Centre of Finland's (VTT) Lipasto database emission factors. The GWP factor used for converting methane emissions to CO₂-equivalent is 25. Only CO₂ and methane are considered for the CO₂ emissions.

Waste: Information on waste disposal methods normally comes from the waste disposal contractor.

Environmental disturbances: As such are considered major incidents, which generally require communication to local authorities.

SOCIAL PERFORMANCE DATA

Total recordable injuries: a work-related injury that results in any of the following: death, days away from work, restricted work or transfer to another job, medical treatment beyond first aid, or loss of consciousness.

Lost time injuries: The reported figures include all reported work-related injuries resulting in the absence of at least one scheduled workday. The lost day is counted from the first day after the injury.

LTI frequency is expressed as reported lost time injuries and possible fatalities per million working hours. The working hours are actual paid working hours. The lost time injury rate does not include commuting injuries.

High-consequence work-related injury: a work-related injury that results in a fatality or injury from which the employee cannot, does not, or is not expected to recover fully to the pre-injury health status within 6 months.

High-potential work-related incident: a work-related incident with a high probability of causing a high-consequence injury.

Net employment creation is calculated by deducting the number of permanent employees having left the company for any reason from the amount of newly hired permanent employees during the reporting period.

Employee turnover is calculated from permanent employees. The number of resigned permanent employees is divided by the number of permanent employees at the end of the reporting period.

Employees and other workforce: Data on Wärtsilä employees is mainly derived from the global SAP HR database. Less than 3% of employees, the amount varying between indicators, have not had all their employment details in the global HR databases. Their gender, employment and contract types have been assumed to be the same as an average global employee. The numbers of new hires and resigned employees do not include estimates of employees whose employment or resignation has not been formally recorded.



INDEPENDENT ASSURANCE REPORT

Our sustainability information and data for 2020 have been assured by an independent auditor, DNV GL Business Assurance Finland Oy Ab.

INDEPENDENT LIMITED ASSURANCE REPORT

To the Management of Wärtsilä Corporation

SCOPE OF ENGAGEMENT

Wärtsilä Corporation (“Wärtsilä”) commissioned DNV GL Business Assurance Finland OY/AB (“DNV GL”) to conduct a limited assurance engagement over selected sustainability disclosures presented in the Wärtsilä Annual Report (“Report”) for the reporting period 1st January to 31st December 2020.

SELECTED INFORMATION

The scope and boundary of our work is restricted to the General and Topic-specific GRI-disclosures (the “Selected Information”). The location of Selected Information in the Report is specified in the “GRI index”.

To assess the Selected Information, which includes an assessment of the risk of material misstatement in the Report, we have used Global Reporting Initiative’s GRI Standards and Wärtsilä’s reporting principles, (the “Criteria”, see Reporting Principles -section of the Report).

We have not performed any work, and do not express any conclusion, on any other information that may be published in the Report or on Wärtsilä’s website for the current reporting period.

OUR CONCLUSIONS

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information is not fairly stated and has not been prepared, in all material respects, in accordance with the Criteria. We believe that the Report is in line with the “Comprehensive” requirements of the GRI Standards.

This conclusion relates only to the Selected Information and is to be read in the context of this Assurance Report, in particular the inherent limitations explained below.

STANDARD AND LEVEL OF ASSURANCE

We performed a limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 revised – ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’ (revised), issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance.

DNV GL applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less detailed than those undertaken during a reasonable assurance engagement, so the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. We planned and performed our work to obtain the evidence we considered sufficient to provide a basis for our opinion, so that the risk of this conclusion being in error is reduced, but not reduced completely.

BASIS OF OUR CONCLUSION

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information; our work included, but was not restricted to:

- Assessing the appropriateness of the Criteria for the Selected Information;
- Conducting interviews with Wärtsilä’s management to obtain an understanding of the data management systems and processes used to generate, aggregate and report the Selected Information;

- Conducting five remote site audits to review processes and systems for preparing site-level data consolidated at Head Office. The site visits were conducted at:

- Wärtsilä CME Zhenjiang Propeller Co., China
- Wärtsilä Defence, US
- Wärtsilä France
- Wärtsilä India
- Wärtsilä Marine and Power services Nigeria

DNV GL was free to choose the sites on the basis of materiality;

- Reviewing data at source and following this through to consolidated Group data;
- Reviewing whether the evidence, measurements, and scope of the Selected Information is prepared in accordance with the Criteria; and
- Reviewing the Report and narrative accompanying the Selected Information in the Report with regard to the Criteria.
- Evaluation of the disclosed information in the Report for “in accordance – Comprehensive” reporting requirements of GRI Standards.

INHERENT LIMITATIONS

Our assurance relies on the premise that the data and information provided by Wärtsilä to us as part of our review procedures have been provided in good faith. Because of the selective nature (sampling) and other inherent limitations of both procedures and systems of internal control, there remains the unavoidable risk that errors or irregularities may not have been detected. Energy use data utilized in GHG emissions calculations are subject to inherent limitations, given the nature and the methods used for determining such data. Finally, the selection of different but acceptable measurement techniques may result in materially different measurements.

DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Independent Assurance Report.

OUR COMPETENCE, INDEPENDENCE AND QUALITY CONTROL

DNV GL established policies and procedures are designed to ensure that DNV GL, its personnel and – where applicable – others are subject to independence requirements (including personnel of other entities of DNV GL) maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals, whose members have not been involved in the development of any of the Criteria. Our multi-disciplinary team consisted of professionals with a combination of environmental and sustainability assurance experience.

RESPONSIBILITIES OF THE MANAGEMENT OF WÄRTSILÄ AND DNV GL

The Management of Wärtsilä have sole responsibility for:

- Preparing and presenting the Selected Information in accordance with the Criteria;
- Designing, implementing and maintaining effective internal controls over the information and data, resulting in the preparation of the Selected Information that is free from material misstatements;
- Measuring and reporting the Selected Information based on their established Criteria; and
- Contents and statements contained within the Report and the Criteria.

Our responsibility is to plan and perform our work to obtain limited assurance about whether the Selected Information has been prepared in accordance with the Criteria and to report to Wärtsilä in the form of an independent limited assurance conclusion, based on the work performed and the evidence obtained. We have not been responsible for the preparation of the Report.

For and on behalf of DNV GL Business Assurance Finland OY/AB
Espoo, Finland

8th February 2021

Mikael Niskala	Souvik Kumar Ghosh
Lead Auditor	Principal Consultant and Reviewer
DNV GL – Business Assurance	DNV GL – Business Assurance

DNV GL Business Assurance Finland OY/AB is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnvgl.com



GRI INDEX

The GRI index shows where the general disclosures and topic-specific standards are addressed in our Annual Report.

GENERAL DISCLOSURES

GRI Standard / Disclosure	Links	Remarks	UNGC
GRI 102: General Disclosures			
Organisational profile			
102-1 Name of the Organisation	Strategy		■
102-2 Activities, brands, products, and services	Strategy Wärtsilä Marine Power Wärtsilä Marine Systems Wärtsilä Voyage Wärtsilä Energy Wärtsilä Portfolio Business		■
102-3 Location of headquarters	Wärtsilä in the capital markets	Helsinki, Finland	■
102-4 Location of operations	Strategy	www.wartsila.com	■
102-5 Ownership and legal form	Wärtsilä in the capital markets		■
102-6 Markets served	Strategy		■
102-7 Scale of the organization	Strategy Wärtsilä in the capital markets		■
102-8 Information on employees and other workers	Social data		■
102-9 Supply chain	Supply chain management		■
102-10 Significant changes to the organization and its supply chain	Social data		■
102-11 Precautionary Principle or approach	Environmental management Risks and risk management R&D and innovation		■
102-12 External initiatives	Stakeholder engagement		
102-13 Membership of associations	Stakeholder engagement		
Strategy			
102-14 Statement from senior decision-maker	CEO review		■

GRI Standard / Disclosure	Links	Remarks	UNGC
102-15 Key impacts, risks, and opportunities	Risks and risk management Strategy Wärtsilä Marine Power Wärtsilä Marine Systems Wärtsilä Voyage Wärtsilä Energy Wärtsilä Portfolio Business R&D and innovation		■
Ethics and integrity			
102-16 Values, principles, standards, and norms of behaviour	Strategy Responsible business conduct		■
102-17 Mechanisms for advice and concerns about ethics	Responsible business conduct Compliance data		■
Governance			
102-18 Governance structure	Governance Board of Directors		■
102-19 Delegating authority	Governance Board of Directors		■
102-20 Executive-level responsibility for economic, environmental, and social topics	Group Management		■
102-21 Consulting stakeholders on economic, environmental, and social topics	Annual General Meeting Internal control		■
102-22 Composition of the highest governance body and its committees	Board of Directors		■
102-23 Chair of the highest governance body	Board of Directors		■
102-24 Nominating and selecting the highest governance body	Annual General Meeting Board of Directors	The nomination committee proposes new board members. The committee consults major shareholders, and in their proposals they take into account the specific needs of the Board, including sustainability competencies and diversity.	■
102-25 Conflicts of interest	Board of Directors Internal control Wärtsilä in the capital markets		■
102-26 Role of highest governance body in setting purpose, values, and strategy	Board of Directors Internal control		■

GRI Standard / Disclosure	Links	Remarks	UNGC
102-27 Collective knowledge of highest governance body	Internal control Group Management		■
102-28 Evaluating the highest governance body's performance	Board of Directors	The evaluation is of general nature, but also includes sustainability issues if such concerns arise. The evaluation partly affects the membership changes within the Board.	■
102-29 Identifying and managing economic, environmental, and social impacts	Board of Directors Risks and risk management		■
102-30 Effectiveness of risk management processes	Board of Directors		■
102-31 Review of economic, environmental, and social topics	Board of Directors Internal control	14 meetings in 2020	■
102-32 Highest governance body's role in sustainability reporting	Report profile		■
102-33 Communicating critical concerns	Internal control		■
102-34 Nature and total number of critical concerns		This information is not publicly disclosed.	■
102-35 Remuneration policies	Remuneration report		■
102-36 Process for determining remuneration	Board of Directors People and Culture		■
102-37 Stakeholders' involvement in remuneration	Remuneration report		■
102-38 Annual total compensation ratio		This information is not publicly disclosed.	■
102-39 Percentage increase in annual total compensation ratio		This information is not publicly disclosed.	■
Stakeholder engagement			
102-40 List of stakeholder groups	Stakeholder engagement		■
102-41 Collective bargaining agreements		55% of Wärtsilä employees were covered by collective bargaining agreements in 2020.	■
102-42 Identifying and selecting stakeholders	Stakeholder engagement		■
102-43 Approach to stakeholder engagement	Stakeholder engagement Customer satisfaction		■
102-44 Key topics and concerns raised	Stakeholder engagement		■

GRI Standard / Disclosure	Links	Remarks	UNGC
Reporting practice			
102-45 Entities included in the consolidated financial statements	Materiality assessment		
102-46 Defining report content and topic Boundaries	Materiality assessment		
102-47 List of material topics	Materiality assessment		
102-48 Restatements of information	Materiality assessment		
102-49 Changes in reporting	Materiality assessment		
102-50 Reporting period	Report profile		■
102-51 Date of most recent report	Report profile		■
102-52 Reporting cycle	Report profile		■
102-53 Contact point for questions regarding the report	Report profile		■
102-54 Claims of reporting in accordance with the GRI Standards	Materiality assessment		■
102-56 External assurance	Independent Assurance Report		■
GRI 103: Management Approach			
103-1 Explanation of the material topic and its Boundary	Materiality assessment		■
103-2 The management approach and its components	Sustainability at Wärtsilä		■
103-3 Evaluation of the management approach	Sustainability at Wärtsilä Strategy Sustainability data Risks and risk management		■

TOPIC-SPECIFIC STANDARDS

GRI Standard / Disclosure	Links	Remarks	UNGC	Material topic disclosures
GRI 200 Economic Standard Series				
GRI 201: Economic Performance				
201-1 Direct economic value generated and distributed	Economic data			■
201-2 Financial implications and other risks and opportunities due to climate change	Economic data Risks and risk management			■
201-3 Defined benefit plan obligations and other retirement plans	Economic data			■
201-4 Financial assistance received from government	Economic data			■
GRI 202: Market Presence				
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Market presence	Only reported the Management Approach disclosure.	■	
202-2 Proportion of senior management hired from the local community	Market presence		■	
GRI 205: Anti-corruption				
205-1 Operations assessed for risks related to corruption	Risks and risk management	Coverage of risk management processes is 100% of our operations.		
205-2 Communication and training about anti-corruption policies and procedures	Responsible business conduct Compliance			
205-3 Confirmed incidents of corruption and actions taken	Compliance			
GRI 206: Anti-competitive behaviour				
206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Compliance			
GRI 300 Environmental Standard Series				
GRI 303: Materials				
301-1 Materials used by weight or volume	Materials			■

GRI Standard / Disclosure	Links	Remarks	UNGC	Material topic disclosures
301-2 Recycled input materials used	Materials	The recycled material input of metals varies between 20% and 95%, depending on the type of furnace and foundry used by the metal recycling companies in the supply chain, of which there are too many to state an exact percentage.	■	
GRI 302: Energy				
302-1 Energy consumption within the organization	Energy		■	
302-3 Energy intensity	Energy		■	
302-4 Reduction of energy consumption	Energy		■	
GRI 303: Water and effluents 2018				
303-3 Water withdrawal	Water		■	
303-4 Water discharge	Water discharge		■	
303-5 Water consumption	Water		■	
GRI 305: Emissions				
305-1 Direct (Scope 1) GHG emissions	Emissions		■	■
305-2 Energy indirect (Scope 2) GHG emissions	Emissions		■	■
305-3 Other indirect (Scope 3) GHG emissions	Emissions		■	■
305-4 GHG emissions intensity	Emissions		■	■
305-5 Reduction of GHG emissions	Emissions		■	■
305-6 Emissions of ozone-depleting substances (ODS)	Emissions	Not applicable, Wärtsilä does not produce, import or export ODS.	■	■
305-7 Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	Emissions		■	■
GRI 306: Effluents and Waste				
306-1 Water discharge by quality and destination	Effluents and waste		■	
306-2 Waste by type and disposal method	Effluents and waste		■	
306-3 Significant spills	Significant spills		■	

GRI Standard / Disclosure	Links	Remarks	UNGC	Material topic disclosures
GRI 307: Environmental Compliance				
307-1 Non-compliance with environmental laws and regulations	Compliance		■	■
GRI 400 Social Standard Series				
GRI 401: Employment				
401-1 New employee hires and employee turnover	Employment		■	
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employment			
GRI 402: Labour/Management Relations				
402-1 Minimum notice periods regarding operational changes	Labour / management relations		■	
GRI 403: Occupational Health and Safety 2018				
403-1 Occupational health and safety management system	Occupational health and safety		■	■
403-2 Hazard identification, risk assessment, and incident investigation	Occupational health and safety		■	■
403-3 Occupational health services	Occupational health and safety		■	■
403-4 Worker participation, consultation, and communication on occupational health and safety	Occupational health and safety		■	■
403-5 Worker training on occupational health and safety	Occupational health and safety		■	■
403-6 Promotion of worker health	Occupational health and safety		■	■
403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Occupational health and safety		■	■
403-8 Workers covered by an occupational health and safety management system	Occupational health and safety		■	■
403-9 Work-related injuries	Occupational health and safety		■	■
403-10 Work-related ill health	Occupational health and safety		■	■

GRI Standard / Disclosure	Links	Remarks	UNGC	Material topic disclosures
GRI 404: Training and Education				
404-1 Average hours of training per year per employee	Training and education		■	■
404-2 Programs for upgrading employee skills and transition assistance programs	Training and education	Various types of training can be offered in restructuring situations, however specific actions are defined case by case.		■
404-3 Percentage of employees receiving regular performance and career development reviews	Training and education		■	■
GRI 405: Diversity and Equal Opportunities				
405-1 Diversity of governance bodies and employees	Employment Diversity and equal opportunity		■	
GRI 406: Non-discrimination				
406-1 Incidents of discrimination and corrective actions taken	Compliance		■	
GRI 415: Public Policy				
415-1 Political contributions	Compliance		■	
GRI 416: Customer Health and Safety				
416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Compliance			
GRI 417: Marketing and Labelling				
417-2 Incidents of non-compliance concerning product and service information and labelling	Compliance			
417-3 Incidents of non-compliance concerning marketing communications	Compliance			
GRI 418: Customer Privacy				
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Compliance			
GRI 419: Socioeconomic Compliance				
419-1 Non-compliance with laws and regulations in the social and economic area	Compliance			

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT 2020

Wärtsilä Corporation complies with the guidelines and provisions of its Articles of Association, the Finnish Limited Liability Companies Act, and the rules and regulations of Nasdaq Helsinki Ltd. Wärtsilä also applies the Global Reporting Initiative’s G4 Sustainability Reporting Guidelines and complies with the Finnish Corporate Governance Code 2020 (the “Code”) issued by the Finnish Securities Market Association. The Code is publicly available at cgfinland.fi/en. Wärtsilä has not deviated from any of the Code’s recommendations.

Wärtsilä’s Corporate Governance Statement is published as a separate statement on Wärtsilä’s website, as well as in this Annual Report. Wärtsilä’s Audit Committee has reviewed the Corporate Governance Statement. The company’s external auditor has monitored the issuing of the statement and has verified that the description of the main features of the internal control and risk management section, as related to the financial reporting process included in the statement, reconciles with the Financial Statements.

Wärtsilä applies a single-tier governance model. The General Meeting of shareholders, the Board of Directors, and the President & CEO are responsible for the management of the Wärtsilä Group. Their duties are, for the most part, defined by the Finnish Companies Act. The General Meeting of shareholders elects the Board of Directors and the auditor. The Shareholders’ Nomination Board prepares proposals to the General Meeting relating to the composition and remuneration of the Board of Directors. The Board of Directors is responsible for the strategic management of the company and is assisted in its work by the Board Committees. The Board appoints the President & CEO, who is in charge of the operative, day-to-day management of the company, with support from the Board of Management.

WÄRTSILÄ’S GOVERNANCE MODEL

External Audit

Elected by the AGM to audit the consolidated and parent company financial statements and accounting records, and the administration of the parent company.

Internal Audit

Analyses the company’s operations and processes, as well as the effectiveness and quality of its supervision mechanisms. The function reports at regular intervals to the Audit Committee.

Annual General Meeting

The Annual General Meeting is Wärtsilä’s ultimate decision-making body.

Board of Directors

The Board of Directors consists of eight members elected by the AGM. They are responsible for the strategic management of the company.

President & CEO

The Board of Directors appoints the President & CEO, who is in charge of the operative, day-to-day management of the company.

Board of Management

The Board of Management supports the President & CEO.

Shareholders’ Nomination Board

The Nomination Board prepares matters pertaining to the appointment and remuneration of the Board of Directors.

Audit Committee

The committee’s responsibilities include monitoring the financial reporting process and the efficiency of internal control, internal audit, and risk management systems.

People Committee

The committee’s responsibilities include preparing matters concerning the nomination and remuneration of the President & CEO, the CEO’s deputy, if any, and the members of the Board of Management.

ANNUAL GENERAL MEETING

Wärtsilä's ultimate decision-making body is the General Meeting of shareholders. It resolves issues as defined for General Meetings in the Finnish Companies Act and the company's Articles of Association. The agenda items for the General Meeting of shareholders include the following:

- approving the financial statements
- deciding on the distribution of dividends
- discharging the company's Board of Directors and President & CEO from liability for the financial year
- electing the company's Board of Directors and auditor and deciding on their remuneration

A General Meeting of Wärtsilä Corporation is held at least once a year, at a time no later than the end of June. If needed, the company may also hold Extraordinary General Meetings. An invitation to the General Meeting is published on the company's website or in a minimum of two daily newspapers, which are commonly distributed in Finland, as decided by the Board of Directors. The invitation shall be published no earlier than two months and no later than three weeks prior to the General Meeting. It shall, however, be published at least nine days prior to the shareholders' record date. Wärtsilä also publishes the invitation to its General Meetings as a stock exchange release. The documents and draft resolutions to be submitted to the General Meeting can be found on Wärtsilä's website.

Shareholders have the right to add items falling within the competence of the Annual General Meeting to the meeting's agenda. The request must be submitted to the Board of Directors in writing sufficiently in advance of the meeting, so that the item can be added to the Notice of the General Meeting. Wärtsilä publishes on its website the date by which a shareholder must notify the company's Board of Directors of an issue that he or she demands to be addressed at the General Meeting. This information is given no later than by the end of the financial period preceding the General Meeting and includes the postal or email address to which the demand shall be sent. The demand is always deemed to have arrived in time, if the Board is notified of the demand no later than four weeks before the delivery of the Notice of the General Meeting.

All shareholders registered by the record date in the company's list of shareholders maintained by Euroclear Finland Ltd have the right to attend the Annual General Meeting. Each share entitles the holder to one vote. The Chairman of the Board of Directors, the members of the Board of Directors, and the President & CEO are normally present at the General Meeting. The auditor-in-charge also attends the Annual General Meeting. Director candidates shall also be present at the General Meeting that decides upon their election.

ANNUAL GENERAL MEETING 2020

Wärtsilä's Annual General Meeting was held on 5 March 2020. A total of 1,970 shareholders representing 335,269,142 votes participated in person or by proxy.

The Annual General Meeting approved the financial statements, reviewed the Remuneration Policy for governing bodies, and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2019. The audit firm PricewaterhouseCoopers Oy was elected as the auditor of the company for the year 2020. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 0.48 per share in two instalments. The first instalment of EUR 0.24 per share was paid on 16 March 2020 and the second instalment of EUR 0.24 per share on 17 September 2020. The Meeting decided to establish a Shareholders' Nomination Board to prepare matters pertaining to the appointment and remuneration of the Board of Directors. It also adopted the proposed Charter of the Shareholders' Nomination Board. The Charter is available on Wärtsilä's website at www.wartsila.com/investors/governance/snb. The Board of Directors was authorised to resolve to repurchase a maximum of 57,000,000 of the company's own shares. In addition, the Board of Directors was authorised to resolve to issue a maximum of 57,000,000 shares in the company. The shares can be issued for consideration or without consideration. They can also be issued in deviation from the shareholders' pre-emptive rights by way of a directed issue if there is a weighty financial reason for the Company to do so. These authorisations were not used by the Board of Directors in 2020. All resolutions were taken without voting. The minutes of the meeting and other related documents can be found on Wärtsilä's website at www.wartsila.com/investors/governance.

SHAREHOLDERS' NOMINATION BOARD

The Annual General Meeting, held on 5 March 2020, established a Shareholders' Nomination Board for an indefinite period. The Nomination Board prepares and presents to the General Meeting proposals relating to the composition and remuneration of the Board of Directors. In addition, the Nomination Board reviews and adjusts the diversity principles of the Board of Directors, as necessary, and does successor planning of the directors.

The Nomination Board consists of five members. Four representatives are nominated by the company's four largest shareholders, with the fifth member being the Chairman of Wärtsilä's Board of Directors. The members are elected annually. Their term of office ends when the composition of the Nomination Board for the following period is determined. The four largest shareholders are determined on the basis of the shareholders' register maintained by Euroclear Finland Ltd. as of 1 June preceding the Annual General Meeting of shareholders. In case a shareholder does not wish to use its appointment right, the right transfers to the next largest shareholder who would not otherwise have such right.

The Shareholders' Nomination Board's proposal for the composition of the Board of Directors is included in the Notice of the General Meeting. The same applies to a proposal for the composition of the Board of Directors made by shareholders with at least 10% of the votes carried by the company shares, provided that the candidates have given their consent to the election, and the company has received information on the proposal sufficiently in advance as to be included in the Notice of the General Meeting. The candidates proposed after the disclosure of the Notice of the General Meeting shall be disclosed separately. Wärtsilä publishes the biographical details of the candidates for the Board on its website in connection with the publication of the Notice of the General Meeting.

Diversity principles

For the Board of Directors to discharge its duties in the most effective manner, the Board must be highly qualified and sufficiently diverse. When preparing its proposal for the Board's composition, the Shareholders' Nomination Board considers the educational and professional background of the individual candidates, as well as their international experience, so that the composition of the Board represents a wide variety of competencies and qualifications. The Shareholders' Nomination Board also considers the candidates' age, as having different seniority levels in the Board is considered beneficial in terms of ensuring a mutually complementary experience.

With regards to gender, Wärtsilä's objective is to have a balanced representation of both genders in the Board. In December 2020, Wärtsilä had three female board members out of eight members in total.

The Shareholders' Nomination Board assesses the potential candidates, not only in terms of their individual qualifications and characteristics, but also in terms of their ability to effectively work together and jointly support and challenge the company management in a proactive and constructive way.

SHAREHOLDERS' NOMINATION BOARD 2020

In June 2020, the following members were appointed to Wärtsilä's Shareholders' Nomination Board:

Petra Hedengran

Born 1964, Masters of Law. General Counsel, Investor AB, appointed by Invaw Invest AB.

Reima Rytsölä

Born 1969, M.Soc.Sc., CEFA, AMP. Deputy CEO, Investments, Varma Mutual Pension Insurance Company.

Mikko Mursula

Born 1966, M.Sc. (Econ.). Deputy CEO, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company.

Satu Huber

Born 1958, M.Sc. (Econ.). CEO, Elo Mutual Pension Insurance Company.

Tom Johnstone CBE

Born 1955, Master of Arts, Honorary Doctorate in Business Administration and Honorary Doctorate in Science. Chairman of the Board of Directors of Wärtsilä Corporation.

The Nomination Board convened **five** times with an attendance rate of 100%.

BOARD OF DIRECTORS

Responsibility for the management of the company and the proper organisation of its operations lies with the company’s Board of Directors, which is composed of five to ten members. Board members serve for one year at a time and are elected by the General Meeting.

According to the Corporate Governance Code’s recommendation 10, the majority of Board members shall be independent of the company, and at least two of the members representing this majority shall be independent of significant shareholders of the company. The Board evaluates the independence of its members annually and re-evaluates it as necessary.

The Board elects a chairman and a deputy chairman from among its members. The Board steers and supervises the company’s operations and decides on policies, goals, and strategies of major importance. The principles applied by the Board to its regular work are set out in the Board Charter. The Board also approves the rules of procedure applied by the Board’s committees setting out their main tasks and working principles. In addition to matters requiring its decision, the Board is given updates on the Group’s operations, financial position, and risks at its meetings.

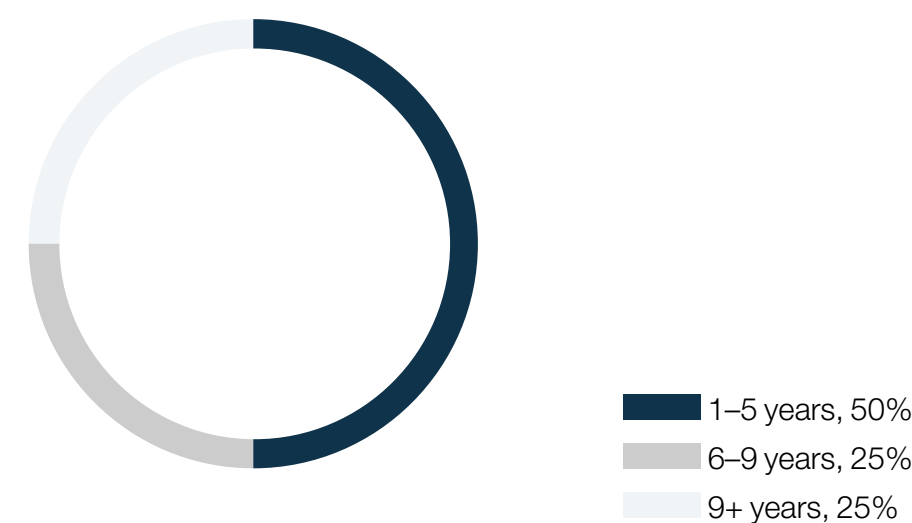
The Board conducts an annual self-evaluation of its operations and working methods. The purpose of this evaluation is to assess how the Board has executed its tasks during the year and to act as a basis for developing Board functions.

The Board of Directors convenes from eight to eleven times a year, following a pre-determined schedule. In addition to these meetings, the Board convenes as necessary. All board meetings are documented.

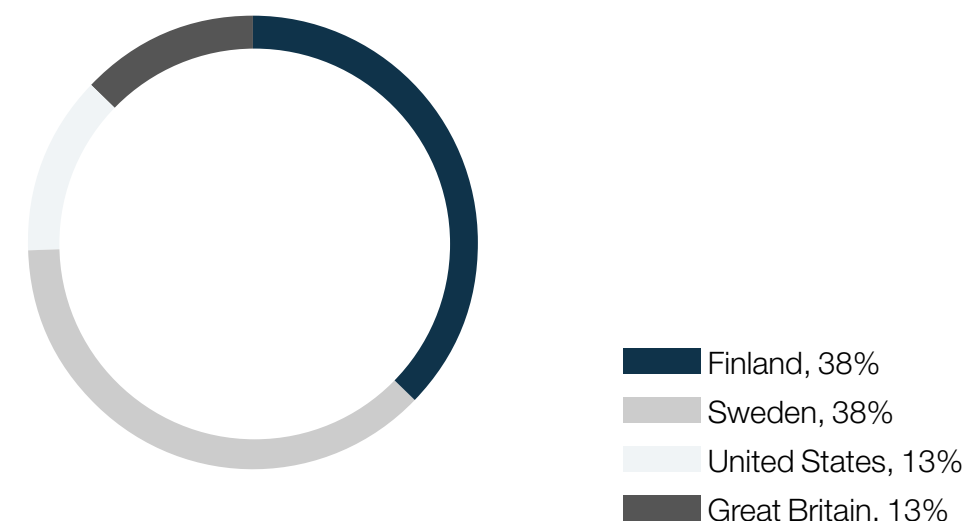
Gender diversity



Tenure



Nationality



Applicable to the Board of Directors elected by the Annual General Meeting 2020

BOARD OF DIRECTORS IN 2020

As of 5 March 2020, the Board comprised the following eight members: Ms Maarit Aarni-Sirviö, Ms Karen Bomba, Ms Karin Falk, Mr Johan Forssell, Mr Tom Johnstone (Chairman), Mr Risto Murto, Mr Mats Rahmström, and Mr Markus Rauramo (Deputy Chairman).

All eight Board members were determined to be independent of the company. Six members were determined to be independent of significant shareholders. Mr Tom Johnstone was determined to be dependent of significant shareholders due to his position in the board of Investor AB. Mr Johan Forssell was determined to be dependent of significant shareholders due to his position as the President and CEO of Investor AB.

Until 5 March 2020, the Board comprised the following eight members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Ms Karin Falk, Mr Johan Forssell, Mr Tom Johnstone (Deputy Chairman), Mr Mikael Lilius (Chairman), Mr Risto Murto, and Mr Markus Rauramo.

During 2020, Wärtsilä’s Board of Directors held 14 meetings with an attendance rate of 100%. People matters are an important and continuous part of the Board’s work. With this in mind, the appointment of a new President & CEO was central in the Board’s work during the year. The financial and strategic development of Wärtsilä, as well as its position in the markets, growth opportunities, profitability development, cash flow, and general further development were also major items on the Board’s agenda. Other areas of focus included the implications of the COVID-19 outbreak for Wärtsilä’s markets and operations, sustainability, technological developments, and changes in the group’s organisational structure.

Board members' meeting participation in 2020

	Number of meetings	% of meetings
Tom Johnstone, Chairman	14/14	100
Markus Rauramo, Deputy Chairman	14/14	100
Maarit Aarni-Sirviö	14/14	100
Karen Bomba (as of 5 March 2020)	12/12	100
Karin Falk	14/14	100
Johan Forssell	14/14	100
Risto Murto	14/14	100
Mats Rahmström (as of 5 March 2020)	12/12	100
Kaj-Gustaf Bergh (until 5 March 2020)	2/2	100
Mikael Lilius (until 5 March 2020)	2/2	100

Responsibilities of the Board of Directors

The Board considers all matters stipulated to be the responsibility of a board of directors by legislation, other regulations, and the company's Articles of Association. The most important of these are:

- the annual and interim financial statements
- matters to be put before the General Meetings of shareholders
- the appointment of the President & CEO, the Executive Vice Presidents and the CEO's deputy, if any
- the organisation of financial supervision within the company

The Board is also responsible for considering any matters that are so far-reaching with respect to the area of the Group's operations that they cannot be considered to fall within the scope of the Group's day-to-day administration. Examples of such matters include:

- approval of the long-term goals of the Group and its businesses, as well as the strategies to achieve them
- monitoring the developments, opportunities, and threats in the

- external environment, as well as their impact on goals and strategy
- approval of the annual business plan and target setting for the Group
- approval of risk management principles
- monitoring and assessing the performance of the President & CEO
- approval of the remuneration and pension benefits of the President & CEO, Executive Vice Presidents, and the CEO's deputy, if any
- approval of the corporate governance principles
- overseeing that the company complies with legal and regulatory requirements, its Code of Conduct, and other established values and ethical principles in its operations
- discussing and monitoring the research and product development plans of the company
- appointing the Board committees
- granting charitable donations
- approval of other matters that are strategically or financially important, such as significant investments, acquisitions, or divestments

The Boards' committees

The Board of Directors appoints annually an Audit Committee and a People Committee. It may also nominate other committees, if considered necessary in its constitutive meeting following the Annual General Meeting. The Board appoints the members of these committees and their chairs, taking into consideration the expertise and experience required for the duties of the committee. The Board also has the right to remove a member from a committee. The members of each committee are appointed for the same term of office as the Board itself. In addition to the committee members, other Board members may participate in committee meetings, if they so wish. The purpose of the Board's committees is to prepare matters to be put before the Board for its decision. The committees have no decision-making authority of their own.

Audit Committee

The Board of Directors appoints an Audit Committee to assist it in performing its supervisory duties. The Board appoints from among its members at least three members to the Committee. These members shall have the qualifications necessary to perform the responsibilities

of the Audit Committee. The majority of the members of the Audit Committee shall be independent of the company, and at least one member shall be independent of the company's significant shareholders.

The Board defines the duties of the Audit Committee in the charter confirmed for the Committee. The Audit Committee monitors the financial statement reporting process, as well as the efficiency of the internal control, internal audit, and risk management systems. Furthermore, the Committee reviews the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, monitors the statutory audit of financial statements and consolidated financial statements, evaluates the independence of the statutory audit firm, and prepares the proposal for resolution on the election of the auditor. Other duties of the Audit Committee include reviewing the accounting principles of the company and approving any amendments to them, reviewing the interim and financial statements of the company and the reports prepared by the auditor for the Audit Committee, as well as evaluating the processes aimed at ensuring compliance with laws and regulations and monitoring the company's credit position and taxation. The Audit Committee also reviews the company's Corporate Governance Statements and reviews and resolves any special issues raised by the Board of Directors that fall within the competence of the Audit Committee.

The Chair of the Audit Committee convenes the Committee as required. The Chair reports to the Board of Directors on the Committee's meetings and proposals.

AUDIT COMMITTEE IN 2020

Chair Markus Rauramo, members Maarit Aarni-Sirviö and Risto Murto. All members are independent of the company and significant shareholders. The Audit Committee met eight times in 2020 with an attendance rate of 100%.

People Committee

The Board appoints a People Committee to assist it in its work. The Board appoints at least three of its members to sit in the Committee. The majority of the members of the Committee shall be independent of the company.

The Board defines the duties of the People Committee in the charter confirmed for the Committee. The People Committee prepares for the Board of Directors, as necessary, matters concerning the appointment of the President & CEO, the CEO's deputy, if any, and other members of the Board of Management. The Committee prepares for the Board of Directors proposals concerning the remuneration principles, incentive schemes, and remuneration that apply to the President & CEO and the members of the Board of Management. Furthermore, the People Committee reviews the organisation's development needs and corporate culture alignment with strategy, monitors talent management processes and strategies, as well as reviews leadership development strategies and succession plans. External consultants used by the Committee are independent of the company and management.

The Chair of the People Committee convenes the Committee as required. The Chair reports to the Board of Directors on the Committee's meetings and proposals.




PEOPLE COMMITTEE IN 2020




Chair Maarit Aarni-Sirviö, members Johan Forssell and Tom Johnstone. All members are independent of the company, and one is independent of significant shareholders. The People Committee met seven times in 2020 with an attendance rate of 100%.

Board members' committee meeting participation in 2020

	Audit Committee	People Committee
Tom Johnstone	-	7/7
Markus Rauramo	8/8	-
Maarit Aarni-Sirviö	8/8	7/7
Karen Bomba (as of 5 March 2020)	1/1	-
Karin Falk	-	-
Johan Forssell	-	6/6
Risto Murto	8/8	-
Mats Rahmström (as of 5 March 2020)	-	-
Kaj-Gustaf Bergh (until 5 March 2020)	-	-
Mikael Lilius (until 5 March 2020)	-	1/1

Members of the Board of Directors

		Primary working experience	Other positions of trust	Shares
	Tom Johnstone CBE Independent of the company, dependent of significant shareholders. Chairman of the Board of Wärtsilä Corporation. Born 1955, Master of Arts, Honorary Doctorate in Business Administration and Honorary Doctorate in Science. Member of the Board of Wärtsilä Corporation since 2015, Chairman of the Board since 2020.	<ul style="list-style-type: none"> SKF Group, several management posts, of which the most recent was President and CEO of AB SKF, 2003-2014 	<ul style="list-style-type: none"> British Swedish Chamber of Commerce, Chairman of the Board Combient AB, Chairman of the Board Husqvarna AB, Chairman of the Board Investor AB, Member of the Board Northvolt AB, Member of the Board Volvo Cars, Member of the Board 	Holdings in Wärtsilä Corporation on 31.12.2020: 20,126 shares
	Markus Rauramo Independent of the company and significant shareholders. Born 1968, M.Sc. (Econ. and Pol. Hist.). President & CEO of Fortum Corporation. Member of the Board of Wärtsilä Corporation since 2011, Deputy Chairman of the Board since 2020.	<ul style="list-style-type: none"> Fortum Corporation, Chief Financial Officer and Member of the Fortum Executive Management Team, 2017-2020 Fortum Corporation, Executive Vice President, City Solutions Division, 2016-2017 Fortum Corporation, Executive Vice President, Heat, Electricity Sales and Solutions Division, 2014-2016 Fortum Corporation, Chief Financial Officer, 2012-2014 Stora Enso Oyj, CFO and Member of the Group Executive Team, 2008-2012 Stora Enso International, SVP Group Treasurer, 2004-2008 Stora Enso Oyj, VP Strategy and Investments, 2001-2004 Stora Enso Financial Services, VP Head of Funding, 1999-2001 Enso Oyj, several financial tasks, 1993-1999 	<ul style="list-style-type: none"> Teollisuuden Voima Oyj, Member of the Board Uniper SE, Vice Chairman of the Supervisory Board 	Holdings in Wärtsilä Corporation on 31.12.2020: 25,000 shares
	Maarit Aarni-Sirviö Independent of the company and significant shareholders. Born 1953, M.Sc. (Tech.), eMBA. Member of the Board of Wärtsilä Corporation since 2007.	<ul style="list-style-type: none"> Directors' Institute Finland - Hallitusammattilaiset ry, Secretary General, 2012-2019 Boardview Oy, Managing Director, 2012-2019 Mint of Finland Ltd., President and CEO, 2008-2010 Borealis Group, several senior positions in 1994-2008 of which the most recent Vice President BU Phenol, 2001-2008, and Vice President BU Olefins, 1997-2001 Neste Oyj, 1977-1994 	<ul style="list-style-type: none"> Finland National Committee for UN Women, Chairman of the Board Korona Invest, Senior Advisor <p>Relevant prior positions of trust</p> <ul style="list-style-type: none"> Directors' Institute Finland - Hallitusammattilaiset ry, Member of the Board, 2011-2019 ecoDa (The European Confederation of Directors' Associations), Member of the Board, 2012-2019 Berendsen plc, Member of the Board, 2014-2017 Rautaruukki Oyj, Member of the Board, 2005-2012 Ponsse Oyj, Member of the Board, 2007-2010 Vattenfall AB, Member of the Board, 2004-2007 	Holdings in Wärtsilä Corporation on 31.12.2020: 38,719 shares

	Primary working experience	Other positions of trust	Shares
 <p>Karen Bomba Independent of the company and significant shareholders. Born 1964, B.Sc. Mechanical Engineering. Member of the Board of Wärtsilä Corporation since 2020.</p>	<ul style="list-style-type: none"> • President of Smiths Interconnect, 2017-2020 • Morpho Detection, Inc., President & CEO, 2013-2017 • Labinal SA, Chairman and CEO, 2010-2013 • Zoltek Companies, Inc., Chief Operating Officer, 2008-2010 • Messier-Bugatti USA LLC, Chairman and CEO, 2004-2008 • Messier-Bugatti USA LLC, Executive Vice President and General Manager, 2000-2004 • Hitco Carbon Composites, Inc., Business Line Manager and Focused Factory Manager, 1993-2000 • Northrop Corporation, Manufacturing Engineering Manager, 1986-1993 	<p>Relevant prior positions of trust</p> <ul style="list-style-type: none"> • European Chamber of Commerce, Member of the Board, 2007-2008 • Tri-County Economic Development Corporation, Member of the Board, 2007-2008 • French American Chamber of Commerce, Member of the Board, 2005-2006 	<p>Holdings in Wärtsilä Corporation on 31.12.2020: 4,216 shares</p>
 <p>Karin Falk Independent of the company and significant shareholders. Born 1965, B.Sc. (Econ.). President, Husqvarna Construction Division. Member of the Board of Wärtsilä Corporation since 2017.</p>	<ul style="list-style-type: none"> • Volvo Group, Senior Vice President, Volvo Trucks Services & Customer Quality, 2016-2020 • Volvo Group, Executive Vice President, Corporate Strategy & Brand Portfolio, 2012-2016 • Volvo Group, President, Non-Automotive Purchasing, 2008-2012 • Volvo Car Corporation, Vice President, Volvo Car Customer Service, 2006-2008 • Volvo Car Corporation, President, Volvo Car Special Vehicles, 2001-2006 • Volvo Cars and Volvo Group, various positions, 1988-2001 		<p>Holdings in Wärtsilä Corporation on 31.12.2020: 9,289 shares</p>
 <p>Johan Forssell Independent of the company, dependent of significant shareholders. Born 1971, M.Sc. (Economics and Business Administration). President & CEO of Investor AB. Member of the Board of Wärtsilä Corporation since 2017.</p>	<ul style="list-style-type: none"> • Investor AB, Head of Core Investments and Member of the Management Group, 2006-2015 • Aleris AB, Project Director, 2014 • Investor AB, Head of Research, 2003-2006 • Investor AB, Head of Capital Goods and Healthcare sector, 2001-2003 • Investor AB, Head of Capital Goods sector and Analyst, 1995-1999 	<ul style="list-style-type: none"> • Atlas Copco, Member of the Board • Confederation of Swedish Enterprise, Member of the Board • Epiroc AB, Member of the Board • EQT AB, Member of the Board • Patricia Industries, Member of the Board • Stockholm School of Economics, Member of the Board 	<p>Holdings in Wärtsilä Corporation on 31.12.2020: 9,289 shares</p>

		Primary working experience	Other positions of trust	Shares
	Risto Murto Independent of the company and significant shareholders. Born 1963, Ph.D. (Econ.). President & CEO of Varma Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 2014.	<ul style="list-style-type: none"> • Varma, Executive Vice President, Investments, 2010-2013 • Varma, Chief Investment Officer, Investments, 2006-2010 • Opstock Ltd, Managing Director, 2000-2005 • Opstock Ltd, Head of Equities and Research, 1997-2000 • Erik Selin Ltd., Head of Research, 1993-1997 	<ul style="list-style-type: none"> • e2 Research, Chairman of the Board • The Finnish Pension Alliance TELA, Member of the Board • Finance Finland (FFI), Member of the Board • Sampo plc, Member of the Board 	Holdings in Wärtsilä Corporation on 31.12.2020: 15,229 shares
	Mats Rahmström Independent of the company and significant shareholders. Born 1965, MBA. President & CEO of Atlas Copco AB. Member of the Board of Wärtsilä Corporation since 2020.	<ul style="list-style-type: none"> • Atlas Copco AB, Business Area President, Industrial Technique, 2008-2017 • Atlas Copco AB, President, Atlas Copco Tools General Industry division within Industrial Technique, 2006-2008 • Atlas Copco AB, various positions in sales, service, marketing, and general management within Industrial Technique, 1988-2006 	<ul style="list-style-type: none"> • The Association of Swedish Engineering Industries, Member of the Board • Piab AB, Member of the Board • The Royal Swedish Academy of Engineering Sciences, Member 	Holdings in Wärtsilä Corporation on 31.12.2020: 17,716 shares

GROUP MANAGEMENT

The President & CEO

The Board of Directors appoints a President for the Group, who is also its Chief Executive Officer. The President & CEO is in charge of the day-to-day management of the company and its administration in accordance with the company's Articles of Association, the Finnish Companies Act, and the instructions of the Board of Directors, and is assisted in this work by the Board of Management. The President & CEO's service terms and conditions are specified in writing in the service contract.

The President & CEO of the company in 2020 was Mr Jaakko Eskola. In September 2020, Wärtsilä's Board of Directors appointed Mr Håkan Agnevall as the new President and CEO. Mr Agnevall assumed the role on 1 February 2021. Mr Jaakko Eskola will continue as a senior advisor to the Board and executive team until he retires on 30 June 2021.

Board of Management

Wärtsilä's Board of Management comprises nine members: the President & CEO, the Chief Financial Officer, the Executive Vice Presidents of the businesses Wärtsilä Energy, Wärtsilä Marine Power, Wärtsilä Marine Systems, and Wärtsilä Voyage, as well as the Executive Vice Presidents heading the Communications, Branding & Marketing; Corporate Relations & Legal Affairs; and Human Resources functions. The members of the Board of Management are appointed by the company's Board of Directors, which also approves their remuneration and other terms of employment.

The Board of Management is chaired by the President & CEO. It considers strategic issues related to the Group and its businesses, as well as investments, product policy, and the Group's structure and corporate steering systems. It also supervises the company's operations.

The Chief Financial Officer's main areas of responsibility include group accounting and control, treasury (including project and customer financing), taxation, process development, corporate planning, and investor relations. The Executive Vice Presidents of the businesses

are each responsible for the sales volumes and profitability of their respective global business, deploying the capabilities of the Group's worldwide subsidiaries. The main areas of responsibility of the Executive Vice President, Corporate Relations & Legal Affairs are corporate relations and legal affairs, intellectual asset management and sustainability, environmental and occupational health and safety, as well as security, including cyber security. The Executive Vice President, Human Resources is responsible for people related processes. The main areas of responsibility of the Executive Vice President, Communications, Branding & Marketing are external and internal communications, as well as branding and marketing. Information on the members of the Board of Management and their areas of responsibility and holdings can be found in the Board of Management CVs.

THE BOARD OF MANAGEMENT IN 2020

The Board of Management met 14 times during 2020. The main issues addressed by the Board of Management included market development and business strategy, growth areas, the cost structure and profitability of the company, as well as developments related to competitiveness and the quality of products and services. Considering the substantial impact of COVID-19 on Wärtsilä globally, the implications of the pandemic for the markets and the measures taken to ensure business continuity and to safeguard the health and safety of Wärtsilä's personnel were also high on the agenda. Equally emphasised was the reorganisation of Wärtsilä Marine Business into three independent businesses with the aim of accelerating strategy execution, simplifying the business structure, and strengthening business presence in the Board of Management. Digitalisation and security, particularly cybersecurity, were additional areas of focus, as were occupational health and safety and operational excellence. Furthermore, the Board of Management continuously addresses the development of the regulatory operating environment, order intake and production capacity, as well as supplier and other stakeholder relationships.

Corporate management

The company's corporate management consists of, in addition to the Board of Management, the directors in charge of corporate functions. These functions include financial controlling, corporate legal affairs, group treasury, compliance, information management, brand management, corporate internal audit, corporate relations and sustainability, and investor relations.



Business management teams

Each business head is supported by a business management team. The business management teams comprise the heads of business units and business lines, as well as business specific support function heads. They are responsible for executing the respective business strategies and for ensuring that the business' performance is in line with agreed targets.




Managing Directors of subsidiaries

The Managing Directors of the Group's subsidiaries are responsible for ensuring that local resources are correctly dimensioned to meet the needs of the businesses, and that the development needs of the subsidiary's personnel are met. The Managing Directors are also responsible for ensuring that the subsidiary's operations fulfil the requirements stipulated in the Group processes, including the quality system, that these operations comply with the respective country's legal requirements and with good business practices, and that communication within the subsidiary is conducted in accordance with the targets of the Group.

Members of the Board of Management

		Primary working experience	Positions of trust	Shares
	Jaakko Eskola President & CEO of Wärtsilä Corporation since 2015. Born 1958, M.Sc. (Eng.). Joined the company in 1998.	<ul style="list-style-type: none"> Wärtsilä Corporation, Senior Executive Vice President and Deputy to the CEO, 2013-2015 Wärtsilä Corporation, President, Marine Solutions, 2006-2015 Wärtsilä Corporation, Vice President, Power Plants Sales & Marketing, 2005-2006 Wärtsilä Development & Financial Services Oy, President, 1998-2005 PCA Corporate Finance, Executive Director, 1997-1998 Kansallis-Osake-Pankki, various managerial positions in international project finance, 1986-1997 Industrialization Fund of Finland, Corporate Analyst, 1984-1986 VTT Technical Research Centre of Finland, Researcher, 1983-1984 	<ul style="list-style-type: none"> Ahlstrom-Munksjö Oyj, Chairman of the Board The Finnish Foundation for Share Promotion, Member of the Board <p>Relevant prior positions of trust</p> <ul style="list-style-type: none"> The Federation of Finnish Technology Industries, Member of the Board, 2014-2020 European Marin-Equipment Council (EMEC), President, 2008-2011 	Holdings in Wärtsilä Corporation on 31.12.2020: 50,739 shares
	Arjen Berends Executive Vice President and Chief Financial Officer since 2018. Born 1968, MBA. Joined the company in 1988.	<ul style="list-style-type: none"> Wärtsilä Corporation, Vice President, Finance & Business Control, Marine Solutions, 2012-2018 Wärtsilä Corporation, Vice President, Finance & Business Control, Wärtsilä Industrial Operations, 2010-2012 Wärtsilä Corporation, Finance Director, Wärtsilä Industrial Operations, 2007-2010 Finance Director, Propulsor Business and Finance Director, Wärtsilä Propulsion Netherlands B.V., 2002-2007 Controller Marine / Manufacturing and Finance Director, Wärtsilä Norway AS, 1998-2002 Wärtsilä Netherlands B.V., various controller positions, 1988-1998 		Holdings in Wärtsilä Corporation on 31.12.2020: 1,500 shares
	Alid Dettke Executive Vice President, Human Resources since 2019. Born 1981, Double-degree BA (Hons) European Business. Joined the company in 2017.	<ul style="list-style-type: none"> Wärtsilä Corporation, Vice President, Open Innovation, 2018-2019 Wärtsilä Corporation, Vice President, Digital Innovation, 2017-2018 Accenture Interactive, Senior Manager, Digital, Accenture Singapore, 2012-2017 Accenture Interactive, Manager, Digital, Accenture Singapore, 2010-2012 Accenture Interactive, Consultant, Digital, Accenture Singapore, 2007-2010 Research International Asia, Senior Research Executive, 2005-2006 BASF, Management Trainee, Regional e-Commerce Solutions, BASF South East Asia, 2004 		Holdings in Wärtsilä Corporation on 31.12.2020: no shares

	Primary working experience	Positions of trust	Shares
 <p>Sean Fernback President, Wärtsilä Voyage and Executive Vice President since May 2020. Born 1963, Dipl. Electronics Engineering. Joined the company in 2020.</p>	<ul style="list-style-type: none"> • Navico, Chief Technology Officer, 2018-2019 • C-MAP, Chief Executive Officer, 2016-2018 • HERE Technologies (formerly a Nokia company), President, 2014-2016 • TomTom International, Senior Vice President Engineering, 2006-2014 	<ul style="list-style-type: none"> • Orca Technologies AS, Chairman of the Board • AND Publishing BV, Member of the Supervisory Board • Mapcode Foundation, Member of the Board 	Holdings in Wärtsilä Corporation on 31.12.2020: no shares
 <p>Tamara de Gruyter President, Wärtsilä Marine Systems, Executive Vice President, and Head of Portfolio Business since March 2020. Born 1972, B.Sc. Shipbuilding Engineering. Joined the company in 1999.</p>	<ul style="list-style-type: none"> • Wärtsilä Corporation, Chief Transformation Officer and Head of Portfolio Business, 2019-2020 • Wärtsilä Corporation, Vice President, Marine Business Europe & Africa, 2019 • Wärtsilä Corporation, Vice President, Services North Europe, 2017-2018 • Wärtsilä Corporation, Vice President, Propulsion System Services, 2015-2018 • Wärtsilä Qiyao Diesel Company, Managing Director, 2014-2016 • Wärtsilä Pumps Pte Ltd, Managing Director, 2013-2014 • Wärtsilä CME Zhenjiang Propeller Co. Ltd., Managing Director, 2009-2013 		Holdings in Wärtsilä Corporation on 31.12.2020: no shares
 <p>Kari Hietanen Executive Vice President, Corporate Relations and Legal Affairs since 2012, Company Secretary since 2002. Born 1963, LL.M. Joined the company in 1989.</p>	<ul style="list-style-type: none"> • Wärtsilä Corporation, Executive Vice President, Human Resources and Legal Affairs, 2002-2011 • Wärtsilä Corporation, Power Divisions, Group General Counsel, 2000-2002 • Wärtsilä Diesel Group, General Counsel, 1994-1999 • Metra Corporation and Wärtsilä Diesel Group, Legal Counsel, 1989-1994 	<ul style="list-style-type: none"> • European Engine Power Plants Association, EUGINE, Vice President • German-Finnish Chamber of Commerce, Member of the Board • Finnish-Russian Intergovernmental Economic Commission, II Deputy Chairman • Finnish-Korean Trade Association, Member of the Board • East Office of Finnish Industries Ltd, Member of the Board • Confederation of Finnish Industries (EK), Member of the Trade Policy Committee • International Trade Committee, Finland Chamber of Commerce / ICC Advisory Board, ICC Finland, Member 	Holdings in Wärtsilä Corporation on 31.12.2020: 17,333 shares

	Primary working experience	Positions of trust	Shares
 <p>Roger Holm President, Wärtsilä Marine Power and Executive Vice President since March 2020. Born 1972, M.Sc. (Econ.). Joined the company in 1997.</p>	<ul style="list-style-type: none"> • Wärtsilä Corporation, President, Marine Business and Executive Vice President, 2019-2020 • Wärtsilä Corporation, President, Marine Solutions and Executive Vice President, 2015-2018 • Wärtsilä Corporation, Senior Vice President, Engines, 2013-2015 • Wärtsilä Corporation, Vice President, Seals & Bearings, 2011-2013 • Wärtsilä Corporation, Vice President, Solutions Management, Services, 2010-2011 • Wärtsilä Corporation, Vice President, Business Development, Services, 2008-2010 • Wärtsilä Corporation, Chief Information Officer, 2006-2008 • Wärtsilä Corporation, Program Director, Global ERP Program, 2002-2006 • Wärtsilä Corporation, Corporate Controller, 2001-2002 • Wärtsilä Finland Oy and Wärtsilä NSD Finland Oy, various managerial positions, 1997-2001 	<ul style="list-style-type: none"> • Hanken School of Economics, Member of the Board 	Holdings in Wärtsilä Corporation on 31.12.2020: 15,196 shares
 <p>Ate Palomäki Executive Vice President, Communications, Branding & Marketing since 2018. Born 1965, M.Sc. (Pol.). Joined the company in 2008.</p>	<ul style="list-style-type: none"> • Wärtsilä Corporation, Executive Vice President, Communications and Branding, 2008-2018 • Nordea Bank AB (publ.), Group Chief Press Officer, 2007-2008 • Nordea Bank AB (publ.), Chief Communication Officer, Finland, 2005-2006 • Kauppalehti, Senior Business Correspondent, 2002-2005 • MTV3, Senior Economic Correspondent, 2000-2002 • MTV3, News Producer, 1995-2000 • MTV3, News Anchor, 1993-1995 	<ul style="list-style-type: none"> • Marketing Executives Group Inc, Vice Chairman • Finland Promotion Board, Member of the Board 	Holdings in Wärtsilä Corporation on 31.12.2020: 14,493 shares
 <p>Sushil Purohit President, Wärtsilä Energy and Executive Vice President since August 2020. Born 1972, B.Sc. (Eng.), MBA. Joined the company in 1998.</p>	<ul style="list-style-type: none"> • Wärtsilä Corporation, Vice President, Energy Business, Americas, 2020 • Wärtsilä Corporation, Vice President, Energy Business, Middle East, Asia and Australia, 2019 • Wärtsilä Corporation, Vice President, Energy Solutions, Middle East, Asia and Australia, 2014-2018 • Wärtsilä Corporation, Vice President, Renewables and Energy Storage, 2016 • Wärtsilä Corporation, various managerial positions in power plant sales, 2001-2014 		Holdings in Wärtsilä Corporation on 31.12.2020: no shares

Marco Wirén acted as Executive Vice President and President of Wärtsilä Energy until August 2020.

INTERNAL CONTROL

Wärtsilä has defined its objectives for internal control according to the international COSO framework. Wärtsilä defines internal control as a process implemented by Wärtsilä’s Board of Directors, the management, the Boards of Directors of Group companies, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives.

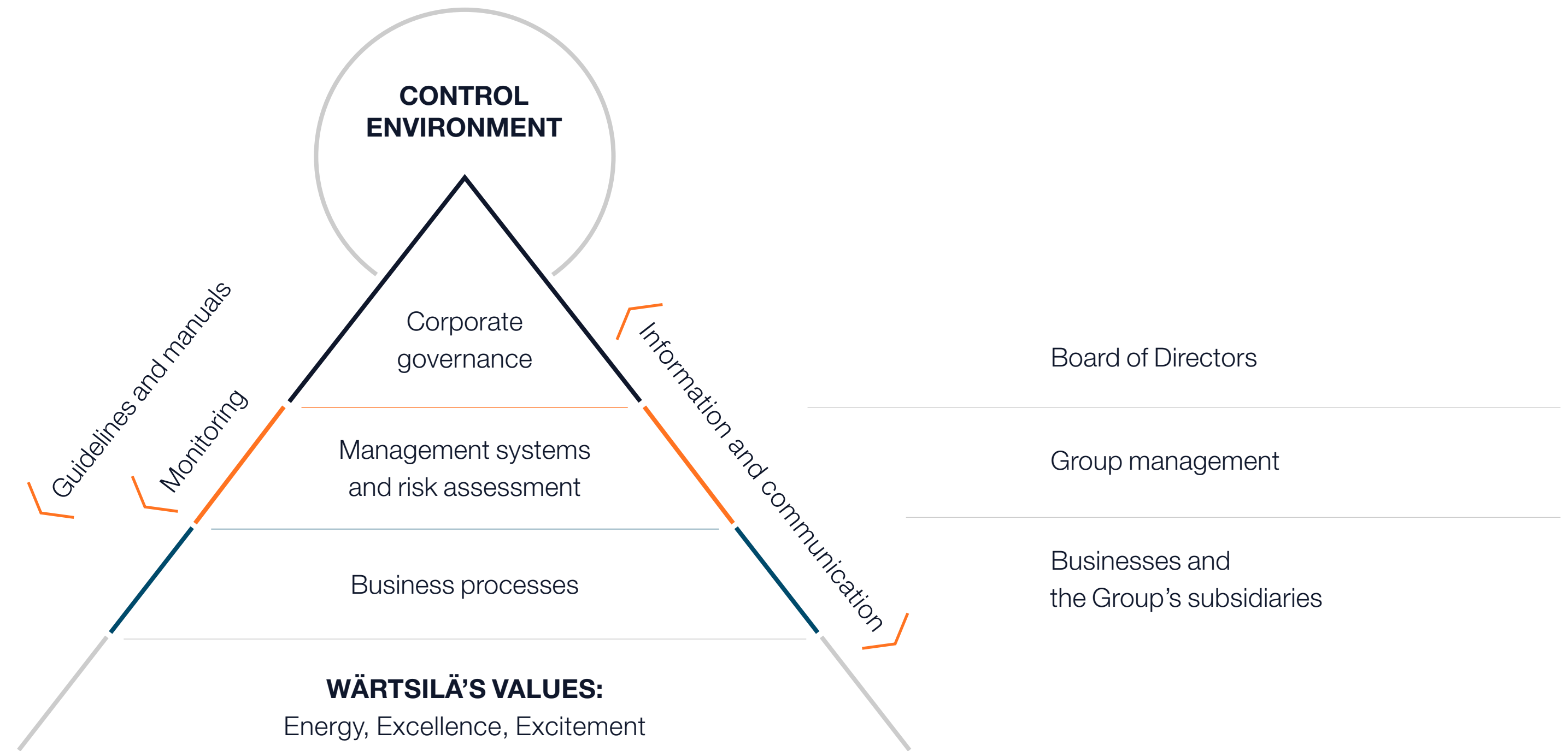
Internal control covers all the policies, processes, procedures and organisational structures within Wärtsilä that help the management, and ultimately the Board, to ensure that Wärtsilä is achieving its objectives, that the business conduct is ethical and in compliance with all applicable laws and regulations, that the company’s assets, including its brand, are safeguarded, and that its financial reporting is correct. Internal control is not a separate process or set of activities but is embedded in Wärtsilä’s operations.

The system of internal control operates at all levels of Wärtsilä. Wärtsilä maintains and develops its internal control system with the ultimate aim of improving its business performance and, at the same time, complying with laws and regulations in countries where it operates.

Management systems

The Board of Management is responsible for developing and implementing Wärtsilä’s management systems, continuously improving their performance and ensuring that they operate effectively. Wärtsilä’s management systems cover all global processes and management procedures within Wärtsilä related to fulfilling customer requirements. The proper functioning of the management systems ensures, for their part, the attainment of Wärtsilä’s internal control objectives. Wärtsilä’s main management systems are described in detail on the company website: www.wartsila.com/investors/governance/internal-control-framework.

MAIN COMPONENTS OF WÄRTSILÄ’S INTERNAL CONTROL



Risk assessment

Internal control within Wärtsilä is designed to support the company in achieving its targets. The risks related to the achievement of targets need to be identified and evaluated in order for them to be managed. Thus, the identification and assessment of risks is a pre-requisite for internal control within Wärtsilä. Wärtsilä's internal control mechanisms and procedures provide the management assurance that risk management actions are carried out as planned. Wärtsilä has defined and implemented entity level and process level control activities, as well as information system controls. Control activities at different levels are needed to directly mitigate risks at the respective levels.

Wärtsilä's financial reporting is carried out in a harmonised way in all major Group companies, using a single instance ERP system and a common chart of accounts. The International Financial Reporting Standards (IFRS) are applied throughout the entire Group. Wärtsilä's finance and control process is essential for the functioning of internal control. Adequate controls in the financial management and accounting processes are needed to ensure the reliability of financial reporting.

The Board of Directors regularly assesses the adequacy and effectiveness of Wärtsilä's internal controls and risk management. It is also responsible for ensuring that the internal control of accounting and financial administration is arranged appropriately. The Audit Committee of Wärtsilä's Board of Directors is responsible for overseeing the financial reporting process.

A more comprehensive description of Wärtsilä's risk management principles as well as of Wärtsilä's most important strategic, operational, and financial risks can be found in the [Risks and risk management](#) section of this report.

Values and the control environment

The foundation of Wärtsilä's internal control system lies on the company's values: Energy, Excellence, and Excitement. Wärtsilä's values are reflected in its day-to-day relations with its suppliers, customers, and investors, as well as in internal guidelines, policies, manuals, processes,

and practices. The control environment sets the tone for internal control within Wärtsilä and influences the control awareness of its people. It provides discipline and structure for all the other components of internal control. The elements of Wärtsilä's control environment are included in the corporate culture; in the integrity, ethical values and competence of Wärtsilä's personnel; as well as in the attention and direction provided to the personnel by the Board of Directors. Wärtsilä's values and control environment provide Wärtsilä's Board of Directors and management the basis for reasonable assurance regarding the achievement of the objectives of internal control. The President & CEO and the Board of Management define Wärtsilä's values and ethical principles, which are reflected in the Code of Conduct, and set an example for the corporate culture, which together create the basis for the control environment. They, together with the business management, are responsible for communicating Wärtsilä's values to the organisation.

Business processes

The controls embedded in Wärtsilä's business processes play a key role in ensuring effective internal control within the company. Controls in the business processes help ensure the achievement of all the objectives of internal control within Wärtsilä, especially those related to the efficiency of operations and safeguarding the company's profitability and reputation. The business management is responsible for ensuring that, within its area of responsibility, the defined Group level processes and controls are implemented and complied with. Where no Group level processes and controls exist, the business management is responsible for ensuring that efficient business level processes with adequate controls have been defined and implemented.

Guidelines and manuals

The components of Wärtsilä's internal control system, including for example corporate governance, management systems, the performance management process, as well as business and other processes, are described in various guidelines and manuals. The essential Group level policies and guidelines are compiled in Wärtsilä's Corporate Manual. Wärtsilä's Group level Accounting Manual contains instructions and guidance on accounting and financial reporting to be applied in all

Wärtsilä Group companies. The manual supports the achievement of objectives related to the reliability of Wärtsilä's financial reporting. Wärtsilä's Group level policies, and any changes to them, shall be approved by a member of the Board of Management. In addition to the Group level guidelines and manuals, the businesses have issued related guidelines and instructions for their own, specific purposes. The business level guidelines and manuals are aligned with, and do not contradict, the Group level guidelines and manuals.

Information and communication

An effective internal control system needs sufficient, timely, and reliable information to enable the management to assess the achievement of the company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities. Employees can provide feedback to the management and communicate suspected misconduct via a whistle-blower channel that secures anonymous reporting, or directly to the Compliance, Legal Affairs, or Internal Audit functions. All external communications are carried out in accordance with the Group Communications Policy.

Monitoring

Monitoring is a process that assesses the quality of Wärtsilä's internal control system and its performance over time. Monitoring is performed both on an ongoing basis and through separate evaluations that include internal, external, and quality audits.

The Audit Committee of the Board of Directors assesses and assures the adequacy and effectiveness of Wärtsilä's internal controls and risk management. The Internal Audit function assists the Audit Committee in this work by performing regular audits of Group legal entities, businesses, and support functions in accordance with its annual plan. In addition, Wärtsilä's external auditor and other assurance providers, such as quality auditors, conduct their evaluations of Wärtsilä's internal controls.

Wärtsilä's management performs monitoring as part of its regular supervisory activities. The business management is responsible for

ensuring that all relevant laws and regulations are complied with in their respective responsibility areas. The Legal and Compliance function monitors adherence to the compliance policies of the Group.

The Group Finance & Control function oversees the financial reporting processes and controls to ensure that they are being followed. It also monitors the correctness of all external and internal financial reporting. Wärtsilä's external auditor verifies the correctness of the external annual financial reports.

Internal audit

Wärtsilä's internal audit is handled by its Internal Audit unit, which reports to the Audit Committee and to the Chief Financial Officer. The purpose of the Internal Audit unit is to analyse the company's operations and processes, as well as the effectiveness and quality of its supervision mechanisms. The internal auditor also participates, if necessary, in audits undertaken in conjunction with acquisitions and carries out special tasks when needed. The Internal Audit function covers all the company's organisational levels and subsidiaries. An internal audit is undertaken in the subsidiaries and network companies at regular intervals, ranging from one to four years, based on a systematic evaluation.

The Internal Audit function prepares an annual plan, under which it independently audits different parts of the company. The annual plan is approved by the Audit Committee. The Internal Audit function is also empowered to carry out special audits. If required, the auditors also have the possibility to take direct contact with the Audit Committee or members of the Board of Directors.

Related party transactions

Wärtsilä's related parties comprise the Board of Directors, the President & CEO, the Board of Management, as well as the associated companies and joint ventures. The Group Finance & Control function evaluates and monitors transactions concluded between the company and its related parties to ensure that any conflicts of interest are considered appropriately in Wärtsilä's decision-making process.

Insider management

Wärtsilä manages inside information and insiders in accordance with all applicable laws and regulations regarding insiders and insider trading. The most important statutory provisions are contained in the Market Abuse Regulation (EU) 596/2014 ("MAR"). Wärtsilä also follows the Insider Guidelines of Nasdaq Helsinki Ltd. and Wärtsilä's Insider Policy.

The company draws up insider lists for projects containing inside information. Insiders are given written notification of their status as insiders and instructions on the obligations that apply to insiders.

The members of Wärtsilä's Board of Directors and Board of Management and certain other Wärtsilä personnel are prohibited from trading Wärtsilä's financial instruments during the 30 days prior to the publication of a financial statements bulletin, a half-year report, or an interim report.

Wärtsilä publishes notifications on transactions conducted by persons discharging managerial responsibilities and persons closely associated with them in accordance with the provisions of the MAR. The term "persons discharging managerial responsibilities" refers exclusively to the members of the Board of Directors and the Board of Management of Wärtsilä. These notifications are available on Wärtsilä's website.

EXTERNAL AUDIT

The company has one auditor, which shall be an audit firm. The auditor is elected by the Annual General Meeting to audit the accounts for the ongoing financial year. Its duties cease at the close of the subsequent Annual General Meeting. The auditor is responsible for auditing the consolidated and parent company financial statements and accounting records, as well as the administration of the parent company.

Following the closing of annual accounts, the external auditor submits a statutory auditor's report to the company's shareholders. In addition, the auditor regularly reports its findings to the Board of Directors' Audit Committee. The auditor, in addition to fulfilling general competency requirements, must comply with certain legal independence requirements guaranteeing the execution of an independent and reliable audit.

AUDITOR IN 2020

The Annual General Meeting appointed the audit firm PricewaterhouseCoopers Oy (PwC) as Wärtsilä Corporation's auditor for the year 2020. The auditor-in-charge was Ms Merja Lindh. Auditing fees paid to PwC amounted to EUR 4.2 million in 2020. Consultancy fees unrelated to auditing duties totalled EUR 0.4 million. The latter fees concerned tax advisory and other services.

REMUNERATION REPORT 2020

REMUNERATION POLICY AT A GLANCE

According to the Remuneration Policy for Governing Bodies of Wärtsilä (the “Remuneration Policy” or “Policy”), remuneration at Wärtsilä shall follow ‘Pay for Performance’ principles of being responsive, transparent, competitive, and aligning relevant interests. These principles are used for structuring the reward approach throughout the organisation, and are designed to align employee rewards with the interests of the company and its shareholders.

Remuneration for the Board of Directors (the “Board”) consists of annual fees for Board membership, attendance fees, and committee fees. Fees vary based on position, workload, and responsibility. Annual fees are paid in shares and cash, attendance and committee fees in cash. The Annual General Meeting (“AGM”) decides on the fees for each term of office.

Remuneration of the Chief Executive Officer (the “CEO”) consists of a base salary, pension, and benefits as well as short- and long-term incentives. The objective is to have a good balance of rewarding elements, and to guarantee a market competitive level of fixed remuneration. This is supplemented with short- and long-term incentive schemes aimed at driving company performance and providing an appropriate reward.

The Board may deviate from the Policy in extraordinary circumstances. To read the full Policy, please visit Wärtsilä’s website at www.wartsila.com/investors/governance.

2020 REMUNERATION AT A GLANCE

The Board fees approved for 2020 were the same as in 2019, and the Board’s remuneration remained unchanged.

Total remuneration paid for the CEO in 2020 decreased from 2019. Financial results for the year 2020 were reasonable given the circumstances, resulting in a short-term incentive scheme (“STI”) payment for the year. The 2018-2020 long-term incentive scheme (“LTI”) did not result in pay-outs.

The original STI 2020 was re-launched with updated full-year targets in order to focus on critical business priorities given the exceptional circumstances due to the COVID-19 pandemic. All targets and performance measures were the same for all employees participating in the STI. The maximum incentive opportunity was 50% of the original level. All participants earned 37.5% of the original maximum opportunity. Payments will be made during 2021 accordingly.

The Company took proactive actions due to the COVID-19 pandemic. Actions affecting employee remuneration included temporarily reducing labour costs by reducing working hours, and initiating temporary layoffs. The fixed salaries of the CEO and the Board of Management were temporarily cut by 20% during Q2, and the resulting savings were donated to charity to support efforts aimed at combatting the impacts of the COVID-19 pandemic.

1. INTRODUCTION

1.1. Letter from the Chair of the People Committee

Dear Shareholders,

As Chair of the People Committee, I am pleased to present Wärtsilä's Remuneration Report for the financial year 2020. The report has been approved by the Board of Directors.

The Remuneration Report outlines the remuneration for our Governing Bodies as required by the Finnish Securities Market Act, the Finnish Limited Liability Companies Act, and the Finnish Corporate Governance Code 2020 (the "Code") issued by the Securities Markets Association. The report presents information on the remuneration of the Chief Executive Officer and the Board of Directors during the financial year 2020. It also presents the development of average employee remuneration and company performance over the past five financial years, in comparison to the CEO and Board's remuneration.

It has been a busy year for the People Committee, as we have had to navigate the requirements of the new legislation and Governance Code, while at the same time addressing issues related to the COVID-19 pandemic. The People Committee had seven meetings and has been extremely active during these exceptional times. The Committee considered it important to elevate the agenda from remuneration matters only, and to address broader people matters. For this reason, it was decided to change the name from the Remuneration Committee to the People Committee.

Our business was negatively impacted by the COVID-19 pandemic during the financial year 2020. We took proactive steps to minimise the negative impact on our operations globally, and to ensure our ability to both return to normalised operations when markets recover, and to capture future growth opportunities. The steps taken included temporarily reducing our labour costs by reducing working hours, and through initiating temporary layoffs.

During the year 2020, we have complied with and executed the company's Remuneration Policy. However, due to the exceptional

circumstances related to the COVID-19 pandemic, the Board considered it necessary to make a temporary deviation from the Policy for the short-term incentive scheme ("STI"). Consequently, the Board resolved to re-launch the STI 2020 with updated annual targets in order to re-set the focus within the organisation according to the changed circumstances, and we believe that this has ensured the best possible business outcome in this challenging environment. The maximum incentive opportunity was 50% of the original level, and we ended up being able to reward participants with a pay-out representing 37.5% of the STI's original maximum opportunity.

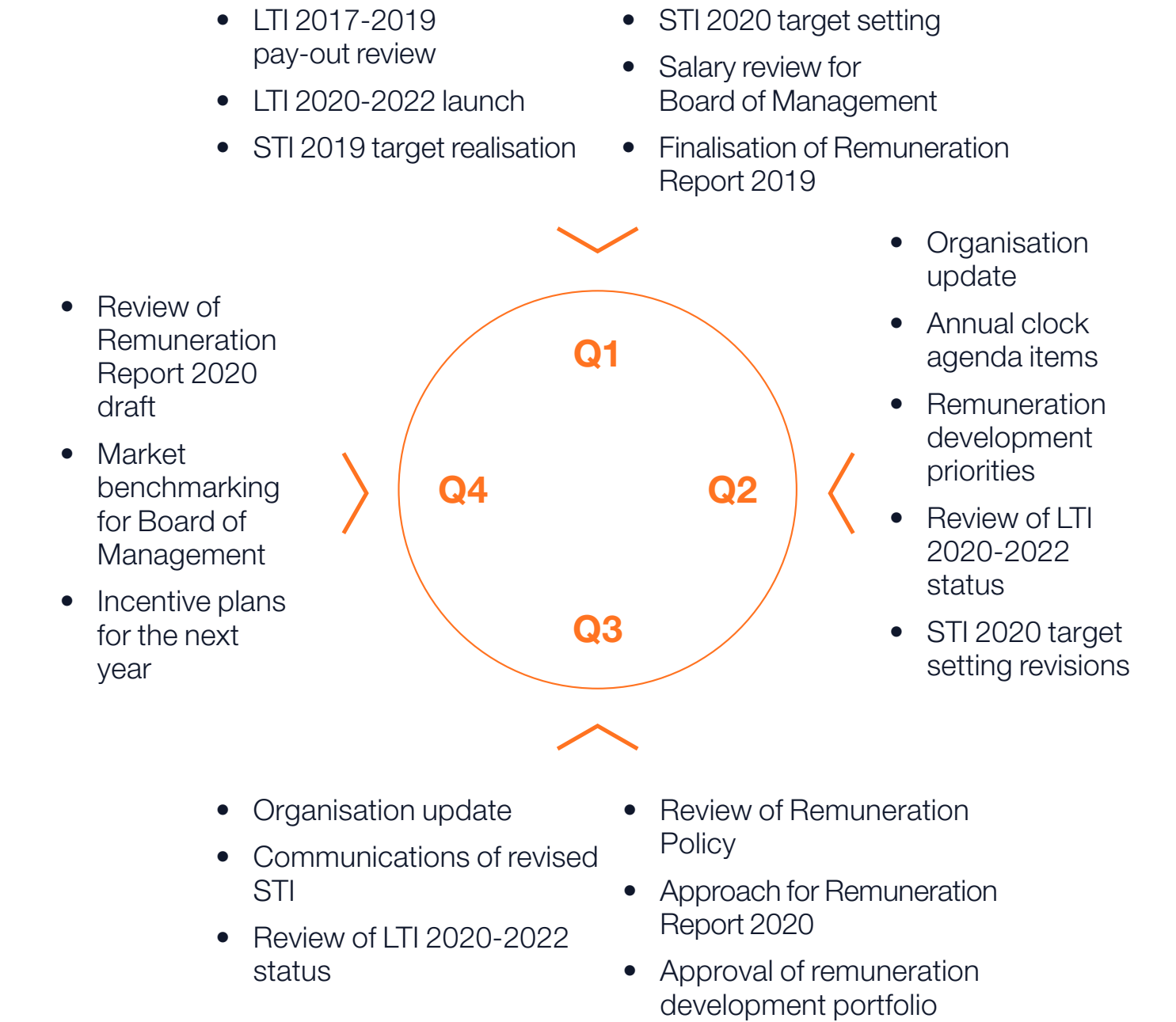
Wärtsilä's long-term incentive scheme ("LTI"), launched in 2018, is based on share price development and the performance period was concluded at the end of 2020. As a result of the share price development during the period, there will be no pay-out for the scheme. During the year 2020, the Committee reviewed the STI and LTI schemes, aiming to even better align with performance and shareholder interest in the future.

Going forward, we will continue to follow our 'Pay for Performance' principles of being responsive, transparent, and competitive while aligning relevant interests. These principles are designed to match employee rewards with the interests of the Company and its shareholders by providing compensation solutions that reward performance for delivering business results. Both long- and short-term incentive arrangements will continue in 2021 with ambitious targets.



Maarit Aarni-Sirviö
 Chair of the People Committee

PEOPLE COMMITTEE ANNUAL CLOCK 2020



People Committee members' meeting participation in 2020

	Number of meetings
Maarit Aarni-Sirviö, Chair	7/7
Johan Forssell (as of 5 March 2020)	6/6
Tom Johnstone	7/7
Mikael Lilius (until 5 March 2020)	1/1

1.2 Remuneration and Company performance

The following section presents the development of both the average remuneration for employees and company performance over the past five financial years in comparison to the CEO and Board's remuneration. In the early years of the period, Wärtsilä's financial performance developed in line with its long-term targets. However, more recently Wärtsilä has experienced setbacks related to cost overruns in a handful of complex projects, which have burdened the operating result. In 2020, the company's demand environment and performance were further materially impacted by the COVID-19 pandemic.

Wärtsilä's Remuneration Principles set in the Policy are applicable to all employees, in all countries and in all businesses. These principles guide the development of remuneration and related practices, including for the CEO. The STI scheme is designed to provide incentives for the achievement of, and to reward the delivery of the short-term business plan. The STI has been consistently based on profitability (comparable operating result) and cash flow targets over the past years. The LTI has been based on share price development, and is designed to align the interests of participants with those of Wärtsilä's shareholders. By aligning the incentive schemes with the goals of the Company, it is ensured that remuneration drives the best interests of the Company.

As Wärtsilä is a global company, the remuneration markets in which Wärtsilä operates vary significantly. Nevertheless, the People Committee considers that the most transparent means for comparing the development of remuneration over time, is to compare the CEO and Board's remuneration with that of employees globally. Therefore, the figures shown for average employee remuneration are based on data for all Wärtsilä employees.

In line with the pay for performance principle, a substantial part of the CEO's remuneration is based on variable pay, i.e. short- and long-term incentives. As our performance targets for short- and long-term incentives are linked to the business results, this development is reflected in the CEO's remuneration. Employee remuneration is less volatile than the CEO's, since a smaller portion of their total remuneration is based on variable pay elements. However, as all short-term incentive schemes



are connected to the same performance indicators to a varying degree, employee remuneration is also impacted by Company performance.

The AGM approved an increase in fees for the Board of Directors in 2018. Other than that, the fees have remained the same, and the total

remuneration paid to the Board has remained rather stable. This is also because Board members do not participate in any of the Company's incentive schemes.

Five-year development of remuneration and Company performance

	2016	2017	2018	2019	2020
Total Board remuneration, TEUR	748	718	829	808	816
Change compared to previous year, %		-4.0	15.5	-2.5	1.0
CEO base + benefits, TEUR	781	785	862	894	843
Change compared to previous year, %		0.5	9.8	3.7	-5.7
CEO total remuneration, TEUR	1,332	1,645	2,967	1,072	1,021
Change compared to previous year, %		23.5	80.4	-63.9	-4.8
Deputy CEO base + benefits*, TEUR	387	425	384		
Change compared to previous year, %		9.9	-9.6		
Deputy CEO total remuneration*, TEUR	1,016	1,028	1,396		
Change compared to previous year, %		1.2	35.8		
Average employee remuneration**, TEUR	55.6	60.6	55.0	58.5	58.1
Change compared to previous year, %		8.9	-9.1	6.3	-0.6
Comparable operating result, MEUR	583	576	577	457	275
Cash flow, MEUR	613	430	470	232	681

* The Company had a Deputy CEO until 31 December 2018.

** Average employee remuneration comprises personnel expenses without other compulsory personnel costs divided by the average number of personnel during the year.

The comparison figures present the remuneration paid out during each financial year. Pay-outs for the STI and LTI always take place during the year following the performance period. This means that, for example, remuneration figures presented for 2020 are based on the STI performance period 2019 and the LTI performance period of 2017-2019. During the past five financial years, there have been STI and LTI pay-outs in the years 2016, 2017, and 2018. In 2019 and 2020, there has been neither an STI nor an LTI pay-out.

1.3 Any deviations or clawbacks made

As noted in the letter by the Chair of the People Committee, during 2020 the Company deviated from the Remuneration Policy in one respect as a result of the significant changes to the business environment due to the COVID-19 pandemic. The aim was to re-set the focus within the organisation according to the changed circumstances, and to ensure the best possible business outcome in the challenging environment.

The Board first resolved to put target setting on hold for 2020 for the annual short-term incentive scheme, but then re-launched the scheme with revised targets. The targets in the re-launched scheme were still full-year targets, but the target-levels were re-evaluated to reflect the changed business environment. The targets were set to ambitious levels and the weightings were set to be aligned with the crucial business priorities for the remainder of the year. All targets and performance measures were the same for all employees participating in the STI, including the CEO. The maximum incentive opportunity was 50% of the original level. All participants earned 37.5% of the original maximum opportunity.

The Board considered a deviation from the Policy to be necessary, as the Remuneration Policy states that a temporary deviation can be considered when in the best interests for the company's long-term success. The deviation was prepared and approved following the process set in the Policy. Although the change to the STI was temporary, a need to slightly enhance the deviation clause in the Policy was identified, and as a result, a revised Remuneration Policy for Governing Bodies will be presented at the Annual General Meeting 2021.

During 2020, the Company has not exercised any rights to reclaim or cancel any paid or unpaid incentives.

2. REMUNERATION OF THE BOARD OF DIRECTORS FOR 2020

The 2020 Annual General Meeting approved the following fees to the members of the Board of Directors for 2020 (no change from 2019):

- to the chairman: EUR 140,000 / year
- to the deputy chairman: EUR 105,000 / year
- to the ordinary members: EUR 70,000 / year

Approximately 40% of the annual Board remuneration is paid in Wärtsilä Corporation shares, and the rest in cash.

In addition, each member will be paid EUR 750 per meeting of the Board attended, the chairman's meeting fee being double this amount. Furthermore, the Chairman of the Audit Committee will receive a fixed fee of EUR 20,000 and each member of the Committee a fixed fee of EUR 10,000 for the term; and the Chairman of the People Committee will receive a fixed fee of EUR 10,000 and each member of the Committee a fixed fee of EUR 5,000 for the term. The members of Wärtsilä's Board of Directors were paid altogether EUR 816 thousand. In addition, the Board members get reimbursed for travel costs in accordance with Wärtsilä's travel policy. The members of the Board are not covered by incentive programmes and do not receive performance-based remuneration, nor do they have a pension scheme arranged by Wärtsilä. All payments to members of the Board during the financial year 2020 were in compliance with the Remuneration Policy.

Fees paid to the members of the Board in 2020

	Attendance fees*, TEUR	Annual fees, TEUR	Total remuneration**, TEUR
Tom Johnstone, Chairman	23	140	163 (8,433 shares)
Markus Rauramo, Deputy Chairman	30	105	135 (6,325 shares)
Maarit Aarni-Sirviö	30	70	100 (4,216 shares)
Karen Bomba (as of 5 March 2020)	9	70	79 (4,216 shares)
Karin Falk	10	70	80 (4,216 shares)
Johan Forssell	15	70	85 (4,216 shares)
Risto Murto	20	70	90 (4,216 shares)
Mats Rahmström (as of 5 March 2020)	9	70	79 (4,216 shares)
Kaj-Gustaf Bergh (until 5 March 2020)	2	-	2 (no shares)
Mikael Lilius (until 5 March 2020)	3	-	3 (no shares)

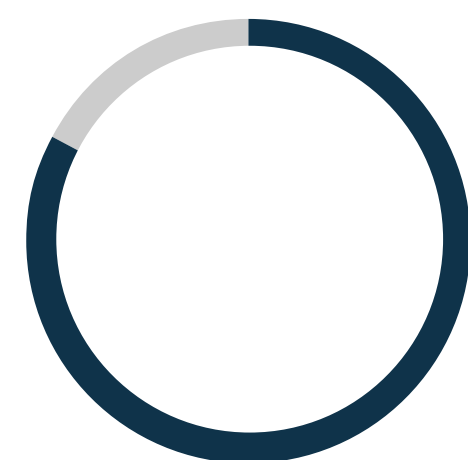
* Attendance fees also include committee fees.

** Total remuneration includes the number of shares. The value of the share portion is approximately 40% of the total fees.

3. REMUNERATION OF THE CEO FOR 2020

In 2020, the CEO of Wärtsilä was paid a total remuneration of EUR 1,021,017. The relative proportion of fixed pay was 100% and variable pay 0%. As described in the Remuneration Policy, fixed pay includes a base salary, benefits and supplementary pension contributions, while variable pay includes short- and long-term incentives. The CEO's remuneration for 2020 is further illustrated below.

Actualised CEO remuneration 2020



Fixed pay: 100%

Variable pay: 0%

- Base salary + benefits, 83%
- Supplementary pension, 17%
- Short-term incentives, 0%
- Long-term incentives, 0%

Metric	STI 2019 – paid in 2020		STI 2020 – accrued (paid in 2021)	
	Weighting	Achievement	Weighting	Achievement
STI 2019: Group comparable operating result, % STI 2020: Group comparable operating result, MEUR	2/3	Below threshold	1/2	Between minimum and target
Group cash flow from operating activities	1/3	Below threshold	1/2	Above maximum
Pay-out to CEO based on STI, EUR		-		334,700

	LTI for performance period 2017-2019 Paid in 2020	LTI for performance period 2018-2020 Accrued (paid in 2021)
Number of incentive rights granted to the CEO	480,000	345,000
Starting share price, EUR	16.19	22.58
Measurement period for comparison share price	Q4 2019 + 100% of dividends paid	Q4 2020 + 100% of dividends paid
Maximum value per incentive right, EUR	6.07	8.47
Final comparison share price, EUR	9.57	8.65
Final value per incentive right, EUR	0.00	0.00
Achievement	Below threshold	Below threshold
Scheme payment date	February 2020	February 2021
Pay-out to the CEO based on LTI, EUR	-	-

Remuneration element	Paid	Description	Compliance with the Policy
Salary and short-term benefits	Paid EUR 842,500	The CEO took a voluntary pay-cut of 20% between 1.4-30.6.2020 The CEO did not receive a salary increase in 2020. The CEO has the following short-term benefits: phone, car, and medical insurance.	Complies with the Policy.
Short-term incentives	Paid EUR 0 Accrued EUR 334,700 Policy maximum An amount equalling the annual fixed pay	For the financial year 2019, paid in 2020 ("paid"): EUR 0 For the financial year 2020, paid in 2021 ("accrued"): EUR 334,700	Deviation from the Policy. Board resolved to re-launch the STI scheme with adjusted full-year targets and maximum incentive opportunity of 50% of the original level.
Long-term incentives	Paid EUR 0 Accrued EUR 0 Policy maximum An amount equalling three times the annual fixed pay at grant	Based on LTI 2017-2019, paid in 2020 ("paid"): EUR 0 Based on LTI 2018-2020, to be paid in 2021 ("accrued"): EUR 0 Ongoing schemes: For LTI 2019-2021, the CEO was granted 445,000 incentive rights with a maximum earning opportunity of EUR 2,919,200. For LTI 2020-2022, the CEO was granted 630,000 incentive rights with a maximum earning opportunity of EUR 2,715,300. All LTIs follow a three-year performance period.	Complies with the Policy.
Pension	Paid EUR 178,500	The CEO is eligible to take retirement upon reaching the age of sixty-three (63). His pension scheme is determined according to a defined contribution based system. The retirement pension contribution is equivalent to 20% of the annual salary.	Complies with the Policy.
Severance benefits	-	Remuneration paid to the CEO if dismissed by the company corresponds to 18 months' salary plus a six months' period of notice salary.	Complies with the Policy.

RISKS AND RISK MANAGEMENT

THE AIM AND PRINCIPLES OF RISK MANAGEMENT

Wärtsilä, like any other company, is exposed to various risks through the normal course of its activities. No business can be conducted without accepting a certain level of risk, and any expected gains from business activities are to be assessed against the involved risks.

The purpose of risk management is to ensure that Wärtsilä is able to effectively execute its strategies and reach its targets, in the short-term as well as over the long run. The key is to identify the risks that have the potential to restrain the company from reaching its goals and to determine whether such risks are at an acceptable level.

By definition, risk is the effect of uncertainty on objectives. An effect is a deviation from the expected, positive or negative; in other words, either a threat or an opportunity. Actions need to be taken to avoid, mitigate, transfer, or monitor identified risks, or to capture and utilise the opportunities. Wärtsilä's structured risk management process offers a set of reactive, proactive, protective, and preventive tools that are used not only to protect the company against threats, but also to turn some of the risks into opportunities.

Risks can only be managed if they are identified and understood in advance, if risk treatment plans for managing them are made, and if a process of continuous follow-up is in place for the related controls. Therefore, risk management is a central part of Wärtsilä's strategic and operational management.

Risk management at Wärtsilä is a continuous process of analysing and managing all the opportunities and threats faced by the company in its efforts to achieve its goals and to ensure the continuity of the business. The basis for risk management is the safety and lifecycle quality of Wärtsilä's operations and products and the continuous, systematic loss prevention efforts at all levels of the Group, not only as an integrated part

of management systems, but as part of every employee's daily work. In the long-term, this is the only means for reducing overall risk related costs.

The businesses are responsible for their risks and rewards, and thus managing risks is the responsibility of business management teams and individual managers. The risk management process at Wärtsilä is embedded in the company's culture, and practices are tailored to fit the business functions and processes of the organisation. The risk management process can be seen as a continuous loop consisting of the repetitive steps of context establishment, risk assessment, risk treatment, communication and consultation, and finally monitoring and review.

Implementation

Wärtsilä employs both Group-wide and project-specific risk assessment and management processes. The Group-wide risk assessment process results in action plans being prepared for the identified and prioritised risks. Risk mitigation actions are decided in the normal course of business.

Wärtsilä's Board of Directors is responsible for defining the Group's overall risk tolerance level and for ensuring that Wärtsilä has adequate tools and resources for managing risks. The Board reviews the risk profile regularly.

The President & CEO, with the assistance of the Board of Management, is responsible for organising and ensuring risk management in Wärtsilä's operations. To further enhance risk reporting, quarterly reporting to the Board of Management was implemented during 2020.

The Board of Directors and the Board of Management decide and set the guidelines on strategic matters. The businesses are responsible for achieving their set strategic goals and for defining action plans for managing the most important risks.

RISK MANAGEMENT GUIDELINES AND PRINCIPLES



The Corporate Risk Management function is part of Group Treasury, which reports to the Chief Financial Officer. The function is responsible for the risk reporting process and for conducting risk assessments with the businesses and their underlying organisations.

Risk categories

The relevant risks for Wärtsilä are classified under four categories: strategic, operational, hazard, and financial risks. The potential loss expectancy is the highest with strategic and operational risks and the lowest with hazard and financial risks. The risks in most of these categories can have both upside and downside impacts. In this regard, hazard risks are an exception, since for them only a negative effect is possible.

The risks reported quarterly by the businesses are mapped within the appropriate risk categories. A summary of the main identified risks is presented to the Board of Directors and to the Audit Committee once a year. The purpose is to facilitate the discussion on risks and to give a quick overview of where priorities should lie in terms of risk management.

STRATEGIC RISKS

Strategic risk assessment is part of the strategic planning process within the Group. At Wärtsilä, a risk is defined as strategic if it has the potential for imposing a long-term impact on the business.

Business environment risks

Business cycles and megatrends in the global economy, and in customer industries, influence the demand for Wärtsilä’s products, as well as its financial condition and operating result. Wärtsilä enjoys a certain level of stability in a cyclical market thanks to its flexible manufacturing model based on capacity outsourcing, its customer base in two separate end markets with different demand drivers, and a large share of sales deriving from service activities. Wärtsilä, along with its customers and suppliers, is indirectly affected by various important economic matters. These include the liquidity and solvency of financial institutions, meaning not only their capability but also their willingness to extend credit, and the counter cyclical stimulus programmes adopted by governments – especially in the power and infrastructure sectors. Among other influencing factors are the activities of multilateral institutions, such as

the International Finance Corporation, and the availability of export credit schemes and guarantees.

The focus on mitigating the impacts of climate change is important for Wärtsilä’s future growth potential, as the company’s comprehensive portfolio of products and services supports customers in improving their environmental performance. A delay or an unpredictable change in the implementation of environmental policies and legislation may present a risk to Wärtsilä. Possible changes in their timelines and scopes are, therefore, actively monitored.

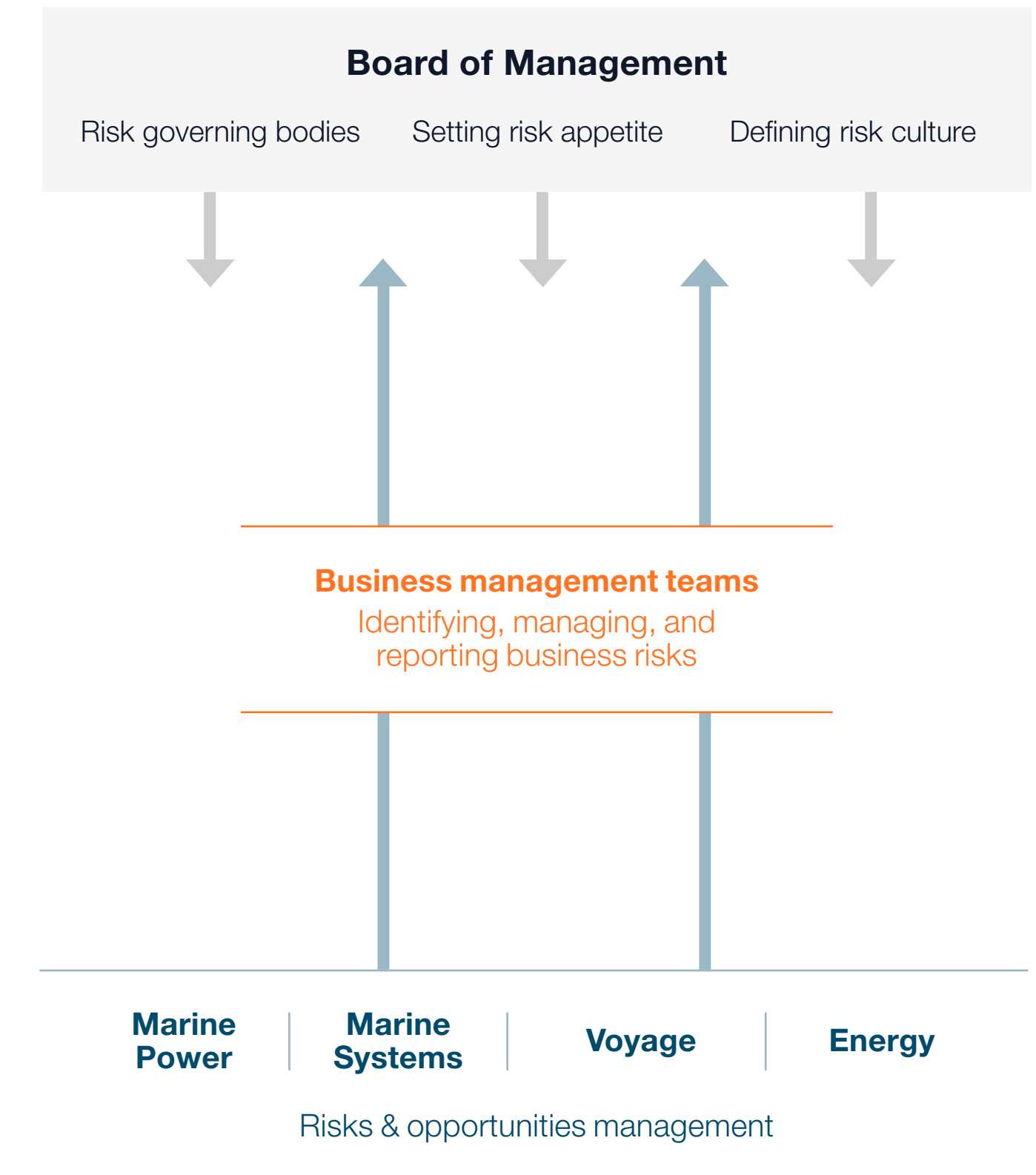
Market and customer risks

In 2020, the COVID-19 pandemic had a negative impact on the investment appetite of Wärtsilä’s customers in both the marine and energy markets, resulting in depressed vessel contracting and the postponement of decisions on new power plant capacity. Service operations suffered from the restrictions on mobility, as well as from the low vessel utilisation, power plant site access constraints, and efforts by customers to limit their cash expenditure. The uncertainties over the evolvement of the pandemic and its long-term implications on Wärtsilä’s markets and the global economy have lowered the visibility on demand development.

The energy markets are transitioning towards more sustainable energy sources. The penetration of renewable energy is increasing, not only because of the promotion of more environmentally sound sources of energy, but also because those forms of energy generation are the most economical to use. However, the energy output of renewables is more volatile, resulting in an increased need for balancing power. This is where Wärtsilä’s flexible engine technology, as well as its energy storage and system integration capabilities, come into play.

The rapidly changing energy market environment has impacted the speed of customer decision-making, as the changes require updating their future portfolio strategies. Electricity demand is increasing, but fragile economic growth represents a risk for demand development. Geopolitical tensions and the implications of trade barriers create notable challenges to the demand environment. Significant currency

RISK REPORTING



fluctuations can result in investment decisions being postponed in certain countries. Nevertheless, orders are received from all geographic regions, thus limiting the risk of a single market dependency. Furthermore, Wärtsilä's three customer segments, namely industrial customers, IPPs (independent power producers), and utilities, are all represented in the order intake.

In the shipbuilding industry, Wärtsilä is well represented in all the major markets and is active in all the main vessel segments. This, along with the company's large product portfolio and global service network providing lifecycle support to the growing installed base of over 50,000 vessels and 10,000 customers, mitigates both geographical and single customer risks.

Trade tensions, geopolitical uncertainty, and a possible slowdown in the global economy are affecting investment decisions in the shipping industry. While slow economic growth is also a risk to demand development in the service markets, the capital-intensive newbuilding market is more sensitive to changes in the economic outlook. Changes in the financial landscape can result in challenges to securing financing for newbuilds. Surplus capacity can drive further consolidation among shipyards, ship owners, and operators in certain segments, which may result in lower capture rates in services and equipment sales due to changed customer relationships.

The importance of fuel efficiency and environmental regulations is clearly visible, driving interest in environmental solutions, alternative fuels, as well as electric and hybrid solutions. While concerns related to climate change require increasing efforts to reduce emissions within the shipping industry, uncertainties concerning developments in the regulatory environment may slow newbuild activity. A clear and foreseeable development of the regulatory environment is a fundamental condition to the decarbonisation of shipping.

Digitalisation has become increasingly important for both the shipping and energy industries' businesses and operating models. In accordance with its Smart Marine strategy, Wärtsilä continued to work towards the digital transformation of future shipping markets by developing

and offering solutions that address customers' needs for safety and optimised efficiency throughout the voyage. In the power generation markets, the growth of renewable energy sources and the deployment of new technologies has increased the complexity of energy systems. Wärtsilä's Greensmith Energy Management System (GEMS) is a proven, efficient, and stable software platform, which enables customers to optimise utilisation of all the assets in their energy system. It also offers capabilities for the remote monitoring of individual assets or complete systems, identifying and diagnosing equipment issues in real time, and extending system lifetime.

Competitive situation and price risks

In 2020, competition in the markets where Wärtsilä operates continued to be intense. In Wärtsilä's addressable power plant market, i.e. the market for installations of up to 500 MW, orders for natural gas and liquid fuel power plants totalled 16.6 GW during the twelve-month period ending in September. Wärtsilä's market share was 9%. Wärtsilä's success in the market can be attributed to its flexible power generation solution, which can be used in a broad range of different applications and power plant sizes. Price pressure resulting from the prevailing competitive environment remains a risk.

In the marine equipment markets, Wärtsilä has a strong position in medium-speed main engines with a 57% market share in 2020. In auxiliary engines, Wärtsilä's market share was 6%. Price competition remains intense in the marine newbuild markets, partly due to lower vessel contracting volumes. The strategic move of becoming a systems integrator has proven to be an important differentiator in the competition for new projects with larger and more value-adding scopes. The concept of selling packaged solutions reduces price volatility.

When it comes to servicing the marine and energy markets, in line with the value-based offering concept, Wärtsilä continues to develop its range of lifecycle services and asset management solutions aimed at optimising its customers' assets over their lifetime. Such long-term service agreements not only ensure asset performance and protect customers' investment, but bring stability to Wärtsilä as a service provider.

Political and legislative risks

Wärtsilä is present in 258 locations in 73 countries and has delivered power plants to 180 countries. Political developments and changes in legislation can have a significant impact on Wärtsilä's business. Wärtsilä actively monitors political and legal developments in its markets and engages in a dialogue with various official bodies on projects of importance to its operations and intellectual property rights. Much of this engagement takes place through interest groups and trade organisations. The company monitors political and legislative changes at both the corporate and subsidiary levels.

Trade tensions were on the rise globally in 2020, and the increasing uncertainty related to trade relations continues to be a noteworthy risk. The impact on Wärtsilä has materialised mainly in the form of delayed contract decisions and reduced demand for new vessels caused by the expected reduction in trade volumes between the USA and China.

In recent years, there has been increased regulatory activity by different governments worldwide. This has led to a need to emphasise due internal processes in order to ensure regulatory compliance or awareness, as appropriate. For example, ongoing and changing trade sanctions are closely monitored and complied with as required.

Climate change and sustainability risks

Wärtsilä assesses its sustainability risks, including climate change risks, in both its strategic and operative risk assessments. The potential business risks related to sustainability, climate change, and Wärtsilä's products are in the areas of regulatory emission restrictions, and changes in perceptions of different technology solutions and fuels. The risks in environmental legislation changes are related to the complexity of the overall field of different emissions, the balance between commercially available fuels and their resulting emissions, available abatement technologies, the impact on overall energy efficiency, and the resulting financial feasibility of the various alternative ways to meet regulatory demands.

Being at the forefront of technological development and decarbonisation efforts in the marine and energy sectors, climate change and tightening environmental regulations form a major opportunity for Wärtsilä. Over the

years, Wärtsilä has worked continuously to improve the efficiency of its products, while at the same time seeking ways to reduce emissions.

The fuel flexibility of Wärtsilä’s products enables the utilisation of various fuels, including gas and those from renewable sources. Furthermore, their operational flexibility enables the installation of large capacity-based wind and solar energy systems without weakening the reliability of the electricity grid. Wärtsilä offers hybrid energy and energy storage solutions, providing customers with sustainable solutions that reduce emissions. Wärtsilä’s technology also enables energy to be generated with a minimum use of water. In shipping, Wärtsilä can reduce the carbon footprint of vessels through high-efficiency propulsion systems, hybrid solutions, and smart voyage optimisation solutions. Environmental solutions offer, among others, alternative technologies to reduce sulphur oxide (SOx) and nitrogen oxide (NOx) emissions, and to treat waste and ballast water. Wärtsilä offers several retrofit solutions for the after-sales market to reduce emissions and to increase fuel efficiency.

Wärtsilä has a vast number of suppliers in its global supply chain, with the result that there are potential sustainability and reputational risks related to, for example, non-compliance with human and labour rights obligations, occupational health and safety, and environmental management. Wärtsilä has clear expectations, policies, and procedures for managing these risks.

For more information about sustainability at Wärtsilä, please see the [Sustainability section](#) of this report.

Technology risks

Wärtsilä aims to increase the competitiveness of its solutions and to manage technology risks and opportunities through solid R&D efforts and innovation. The development of new products and solutions is aimed at optimising lifecycle value for customers, as well as at reducing the environmental impact of their operations. This is achieved with modern and sustainable power solutions, such as gas solutions, environmental technologies, hybrid systems, electrical and automation solutions, as well as energy storage and system optimisation solutions. As a technology leader, Wärtsilä places strong emphasis on emissions control, enhancing

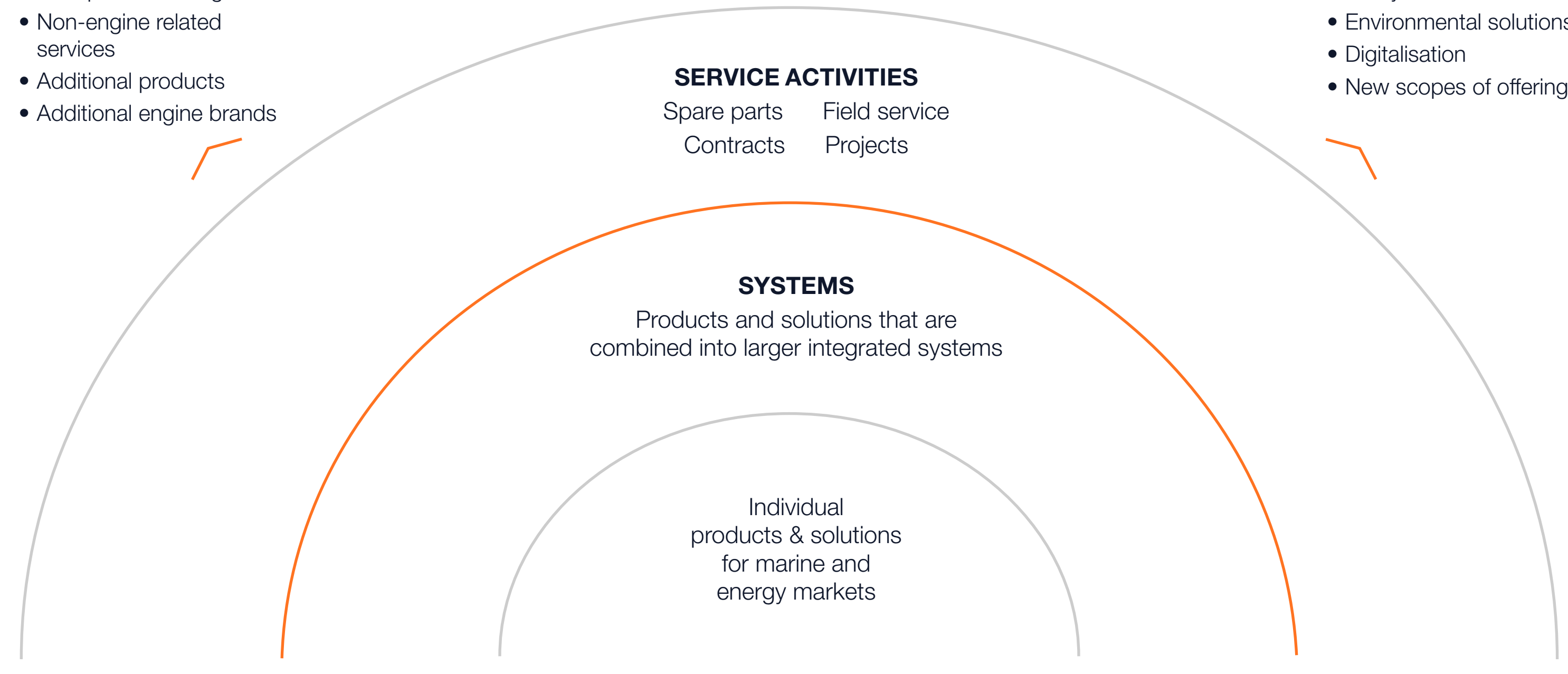
OPERATIONS, RISKS AND OPPORTUNITIES

Opportunities

- New product categories
- Non-engine related services
- Additional products
- Additional engine brands

Opportunities

- Lifecycle solutions
- Environmental solutions
- Digitalisation
- New scopes of offering



ENABLING SUSTAINABLE SOCIETIES WITH SMART TECHNOLOGY



efficiency and fuel flexibility, and maintaining the cost competitiveness of its products. Connectivity and the utilisation of data to further optimise efficiency and unlock new customer value is becoming an increasingly important element of Wärtsilä's development roadmap.

OPERATIONAL RISKS

Operational risk management is part of the daily work of the businesses. Opportunities and risks are identified, assessed, and managed on a daily basis and reported to, and managed by, the appropriate management level. The status of these opportunities and threats is reviewed on a periodic basis, and appropriate further actions are then taken.

Manufacturing risk

Wärtsilä constantly analyses its manufacturing footprint and capacity costs, including costs related to the supply chain. Risk assessments have been made for all the main delivery centres, and significant safety, environmental impact, and risk mitigation investments have been completed. Risk identification, assessment, and mitigation actions are executed on a regular basis as part of operational management. Management systems for quality, environmental, occupational health and safety, and other systems are utilised to improve productivity, while safety and business continuity plans have been implemented for the key delivery centres.

Supplier and subcontractor risk

Wärtsilä's supply management is integrated within the businesses. The aim is to work in partnership with the supplier base to create value for Wärtsilä's customers by ensuring quality, on-time delivery, and the lowest total cost. In order to ensure coordinated interfaces and synergies for the cross-business supplier base, a category management structure has been in place since 2007. Indirect Purchasing remains a centralised function responsible for managing strategic sourcing activities for indirect materials and services in all businesses and support functions.

The supply management units have a unified process for managing and controlling Wärtsilä's supplier network and for verifying that the suppliers' performance meets Wärtsilä's expectations. Supplier performance is, therefore, continuously measured. A key activity in managing business continuity planning is the regular assessment of

RISK MANAGEMENT PROCESS

Protective

- Financial reporting systems
- Risk-based environmental management ISO 14001: 2015
- Internal control systems
- Occupational health and safety management, OHSAS 18001
- Supplier assessment system
- Sustainability reporting system
- Risk-based quality management ISO 9001: 2015
- Other management systems

Preventive

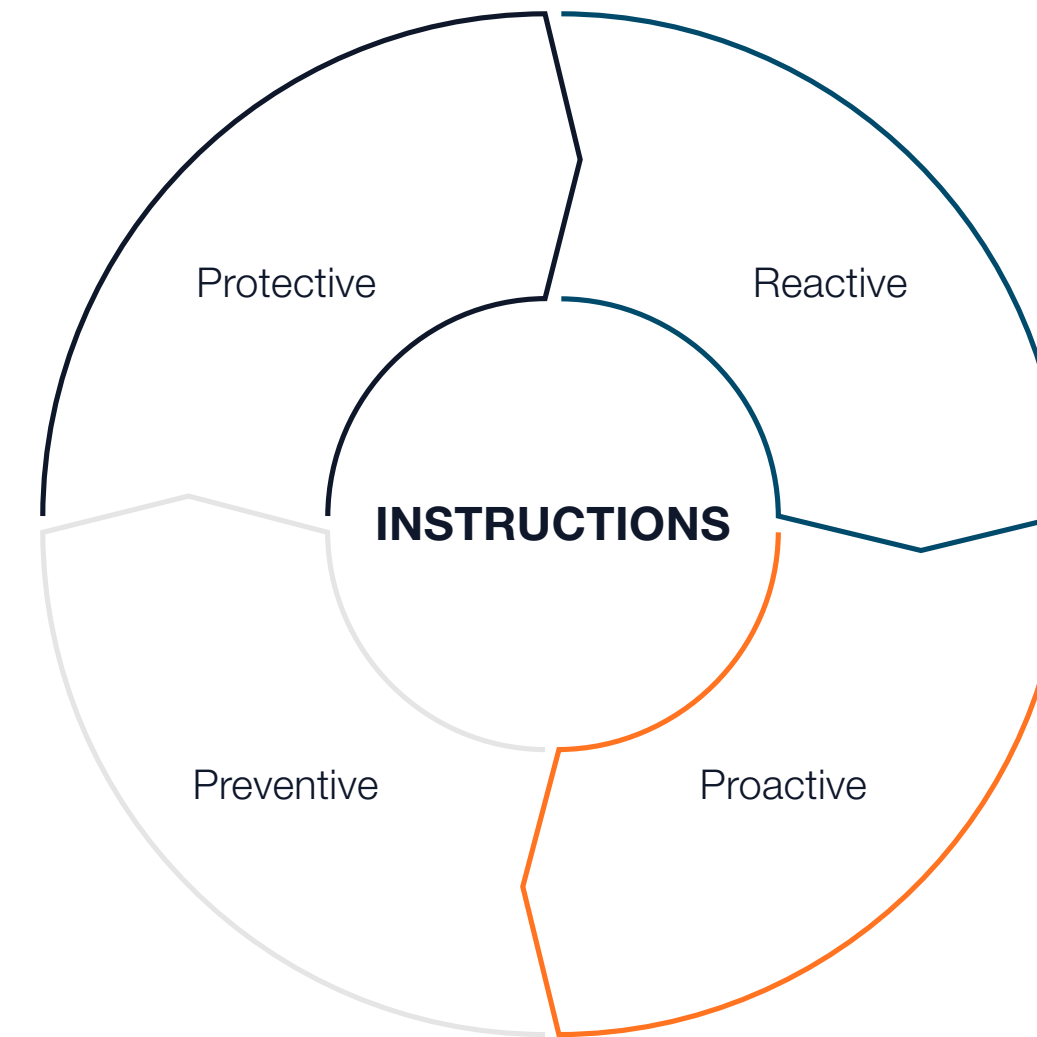
- Quality systems
- Contract policies & payment terms
- Credit control
- Insurance risk surveys
- R&D risk elimination process
- Supplier audits
- WeCare near miss reporting system with corrective measures
- Risk management evaluation

Reactive

- Business continuity planning
- Global and local insurance schemes
- Risk reporting following ISO 31000
- Crisis management
- Business agility

Proactive

- Risk map
- Business risk assessment
- Code of Conduct
- Policies & guidelines
- Safety instructions
- Sales contract policy
- Supplier information monitoring



business interruption risks, which is carried out in cooperation with the company's suppliers. Several supplier risk audits have been completed jointly with the insurer as one means of mitigating risk. These audits are now one of the regular tasks for the supply category managers and the Risk Management function.

Wärtsilä has developed its supply related activities by creating close collaboration and long-term relationships with its main suppliers. This cooperation creates a common view towards values and goals, which

in turn supports the management of Wärtsilä's strategic risks. To further mitigate supplier and subcontractor risks, a comprehensive follow-up of suppliers' credit worthiness has been established. Supplier related risks for key components are mitigated through dual- or multi-sourcing.

Wärtsilä uses an online solution for supply chain risk identification, assessment, and monitoring. More than 2,500 suppliers have been, and continue to be, followed through the system. The solution includes a selection of key criteria defined by Wärtsilä, against which the situation of

each supplier is continuously measured. Any discrepancies are automatically reported to the appropriate category manager, who is responsible for ensuring that the necessary steps, if any, are taken to mitigate the risk. During 2020, Wärtsilä also initiated a more structured process for requesting the relevant key suppliers to provide business continuity plans for the production of Wärtsilä sourced components and services.

Lifecycle quality of products and product liability risk

Wärtsilä's quality strategy focuses on preventive and proactive actions to deliver increased customer satisfaction, shorter lead times, and a reduced number of claims. To realise Wärtsilä's quality vision, the strategy is focused towards effective project risk management and strengthened awareness and ownership, supported by a streamlined product improvement process.

The launching of new products always involves risks. In the R&D process, several risk management techniques are applied, including the risk elimination tool FMEA (Failure Modes and Effects Analysis) and in-house validation testing. Wärtsilä seeks to control quality risks by monitoring the incoming quality of the supply chain, and by designing and manufacturing its products with all due care. A non-destructive robotic ultrasonic data analysis procedure, which replaces manual scanning of critical components, enhances the probability of detecting imperfections in components with a complex geometry.

Wärtsilä applies a GATE model in order to control the product development process. Initially, only a limited release of new products is allowed, and via the gate approach, full release authority is given to the sales organisations only after testing and further validation has been completed.

Wärtsilä seeks to control its manufacturing quality risks by applying several assurance and quality control principles. The level of quality assurance and control requirements are determined based on component criticality, and they are applied throughout the delivery chain.

Requirement management is used to assess components systematically, enabling the allocation of resources and efforts according to component criticality. The ranking criteria indicates the consequence if a component

fails. The objective is to improve quality proactively within product development, supply management, and the entire delivery process – from order intake to commissioning.

Non-conformity management at Wärtsilä focuses on developing and improving operations by registering and handling detected non-conformities. This ensures that the products and services received by customers are according to the agreed scope and specifications. Efficient handling, monitoring, and reviewing of non-conformities is crucial for proper risk management and mitigation.

Product improvement management (issue resolution) projects are prioritised based on risk and importance. Such a project is initiated when Wärtsilä identifies a technical issue according to claim statistics, customer feedback, or internal analysis, and the case fulfils the risk categorisation for a non-isolated case.

The businesses are responsible for supporting customers in all warranty issues. This offers a feedback loop from the field to production and R&D, while taking care of the customers' installations throughout their lifecycle. The company makes warranty provisions to cover any costs that may arise after product delivery. The company's product liability insurance covers unexpected damages.

Wärtsilä seeks to continuously improve the quality of its products and services through the adoption of best industry practices and good governance. Each business is responsible for the quality of their products and services. Management at all levels is responsible for the quality of output from their organisations and is accountable for ensuring that appropriate review and feedback mechanisms are in place. Wärtsilä's business level quality and environmental management systems are ISO 9001:2015 and ISO 14001:2015 certified, with an emphasis on proactive risk and opportunity management. Migration to the new occupational health and safety ISO 45001:2018 standard version was completed during 2020.

Contractual risks

Wärtsilä's equipment business includes projects and deliveries of various sizes. The most substantial orders concern power plants

delivered on a complete EPC (engineering, procurement, and construction) basis, and major marine and energy delivery contracts requiring extensive coordination, efficient risk management, and the integration of contracted systems and solutions.

To avoid unforeseen cost overruns even in the most complex projects, Wärtsilä puts a strong emphasis on having correct processes and technical assessment controls in place. During the past two years, efforts have been made to introduce a more robust project risk management practice already in the sales phase. A focus on supplier approval and internal training also prevails. With these measures, Wärtsilä aims to ensure the quality of its project execution activities, and the upfront identification of project specific risks and opportunities.

The risk of product liability claims is reduced through the lifecycle quality of the company's products and work. This applies from the initial design and continues through all stages of the production process to the eventual field service activities, and includes the use of standard sales contracts, as well as the establishment of a contract review process.

In activities related to lifecycle support, contractual risk is mainly related to long-term agreements and service projects, such as engine upgrades, retrofits, or modifications. In large scale performance-based agreements, the recognised contractual risk is related to the ability to manage and maintain assets as planned.

Risk of non-compliance, corruption, and fraud

Wärtsilä complies with the law and its own internal policies and procedures everywhere the company does business. Wärtsilä's Code of Conduct is the key guideline for all employees globally. Wärtsilä is committed to high ethical standards and integrity, and to preventing corruption and violations of the principles set forth in the Code of Conduct, as well as in Wärtsilä's Anti-Corruption and Compliance Reporting policies, and has a whistle-blowing process in place for reporting misconduct incidents. Compliance processes are embedded in all of the businesses, and the responsibility for compliance and awareness of ethics and integrity is that of all Wärtsilä employees. Wärtsilä is fully committed to complying with anti-corruption laws and

statutes. Wärtsilä's Anti-Corruption Policy absolutely forbids any kind of corruption and bribery, and the top management of the company has a zero-tolerance policy regarding corruption and fraud.

The Compliance function promotes Group-wide compliance and continuously strives to raise awareness of the risk of corruption and bribery and other misconduct. It is primarily responsible for creating and enforcing Group level policies and procedures, training programmes, misconduct incident reporting, and internal compliance investigations, as well as for managing the consequences of misconduct, and reporting. The continuous development of Wärtsilä's compliance programme and nurturing the company's commendable ethical culture are pivotal tasks for the Compliance function. Moreover, Compliance supports and cooperates with the businesses and other corporate functions in their risk management efforts.

While Wärtsilä is aware of the risk of being subject to fraud by external business parties, and that the risk of corruption and fraud is heightened in many markets where the company operates, Wärtsilä maintains its highly ethical practices at all times. Full compliance with its stringent anti-corruption regime, including policies to prevent the corruption and bribery risk of third parties, is demanded by Wärtsilä.

Cyber and information security related risks

Wärtsilä has an experienced and professional internal organisation dedicated to the effective management of cyber security risks across Wärtsilä's portfolio. This organisation, in cooperation with Wärtsilä's businesses, delivers cyber security operational support. It also provides the associated governance, risk management, and assurance required to support and enable safe and secure internal operations, while ensuring that the businesses' customer offerings are aligned with the relevant current and future regulations and applicable standards.

The Wärtsilä cyber security governance model is closely aligned with overall business risk management and supports the businesses and support functions in identifying and prioritising their respective cyber security risks. The cyber security team works seamlessly with physical security colleagues across Wärtsilä to ensure the effective and

coordinated delivery of holistic security solutions for both the cyber and physical domains.

Information security risks related to Wärtsilä's internal operations are continually identified, analysed, and evaluated. The attendant mitigation activities are executed across Wärtsilä's networks, endpoints, systems, and services. The 24/7 Wärtsilä Security Operations Center continually monitors the perimeter to internal systems and closely observes the external threat exposure level, whilst providing a coordinated response to identified information security incidents, as and when they may occur.

The effective mitigation of risks associated with cyber security hygiene throughout Wärtsilä is continually and progressively reinforced through coordinated and complementary cyber security training, awareness initiatives, and extensive communications. This involves all Wärtsilä corporate functions and the businesses.

Wärtsilä has identified the need to mitigate the cyber security risks associated with its supply chain. The company is addressing this need through a comprehensive and risk-based approach, involving both increased opportunities for remote and objective assessment of some suppliers, as well as increased levels of communication with others.

Wärtsilä is one of the founding members of the Operational Technology Cyber Security Alliance (OTCSA) intended to provide a technical and organisational framework for safe and secure operational technology. This alliance aims to bridge dangerous gaps in security for operational technology and industrial control systems. As cyber criminals are seen to increasingly target operational technology used to control physical equipment such as those found in factories, power plants, ships, or ports, finding ways to collaborate with the ecosystem of suppliers, customers, and other partners, even competitors, is the best way to manage the continuously evolving threat landscape.

Privacy and data protection risks

The EU's General Data Protection Regulation (GDPR) sets out the general framework for Wärtsilä's data protection. Wärtsilä has global privacy notices to inform its personnel, customers, vendors, other

stakeholders, and interest groups about the processing of personal data. Data protection implementation is supported by, and aligned with, group-wide privacy policies and processes. Mandatory GDPR training is in place for employees processing personal data, and tailored data protection training is provided for specific employee groups, Wärtsilä has also increasingly invested in the development of data protection platforms to support data protection management and implementation. Wärtsilä applies a risk-based approach to privacy and data protection, and continues to take further actions to strengthen privacy and data protection implementation in order to mitigate risks.

Commodity price risk

Oil

The direct effect of oil price changes on Wärtsilä's production is limited, with their impact being mainly demand related. Higher oil prices represent a risk for global economic growth and increase operating costs, especially in the shipping markets. However, they also stimulate investments in exploration and production for oil and gas, both on land and offshore. Furthermore, high oil prices increase investments in gas carriers, gas-based power plants and, increasingly, also in gas-fuelled vessels. Low oil prices can delay investment decisions in oil producing countries and regions, as well as in the offshore industry. Wärtsilä is a global company involved in different shipping and power plant segments where oil price changes can have an opposing impact on demand drivers. This position is further diversified by the increasing importance of natural gas to Wärtsilä's business.

Metals

Metal prices have an indirect effect on the component cost of Wärtsilä's products. Some key components are sourced with long-term contracts, and raw material price volatility is, therefore, limited.

Electricity

Electricity prices have no substantial impact on Wärtsilä's production costs. In the energy markets, high electricity prices support investments in new capacity by utility customers. Lower grid electricity prices do not favour investments by industrial customers in their own generating capacity.

HAZARD RISKS

Occupational health and safety systems, travel safety instructions, and crisis management guidelines are aimed at protecting Wärtsilä employees. Appropriate insurances are in place for the personnel, and to emphasise the importance of employee safety the Board of Management has decided on a corporate level target of zero lost-time injuries. A specific Zero Injury project exists for this purpose, and the target is included in the company’s sustainability programme. During 2020, the near-miss reporting system, WeCare, was actively used worldwide in order to manage information related to incidents that can threaten the safety, health, and security of the company’s employees and operations, as well as the environment. This IT solution provides a guide for identifying the causes of incidents, for taking all appropriate actions in a systematic way, and for documenting the lessons learned.

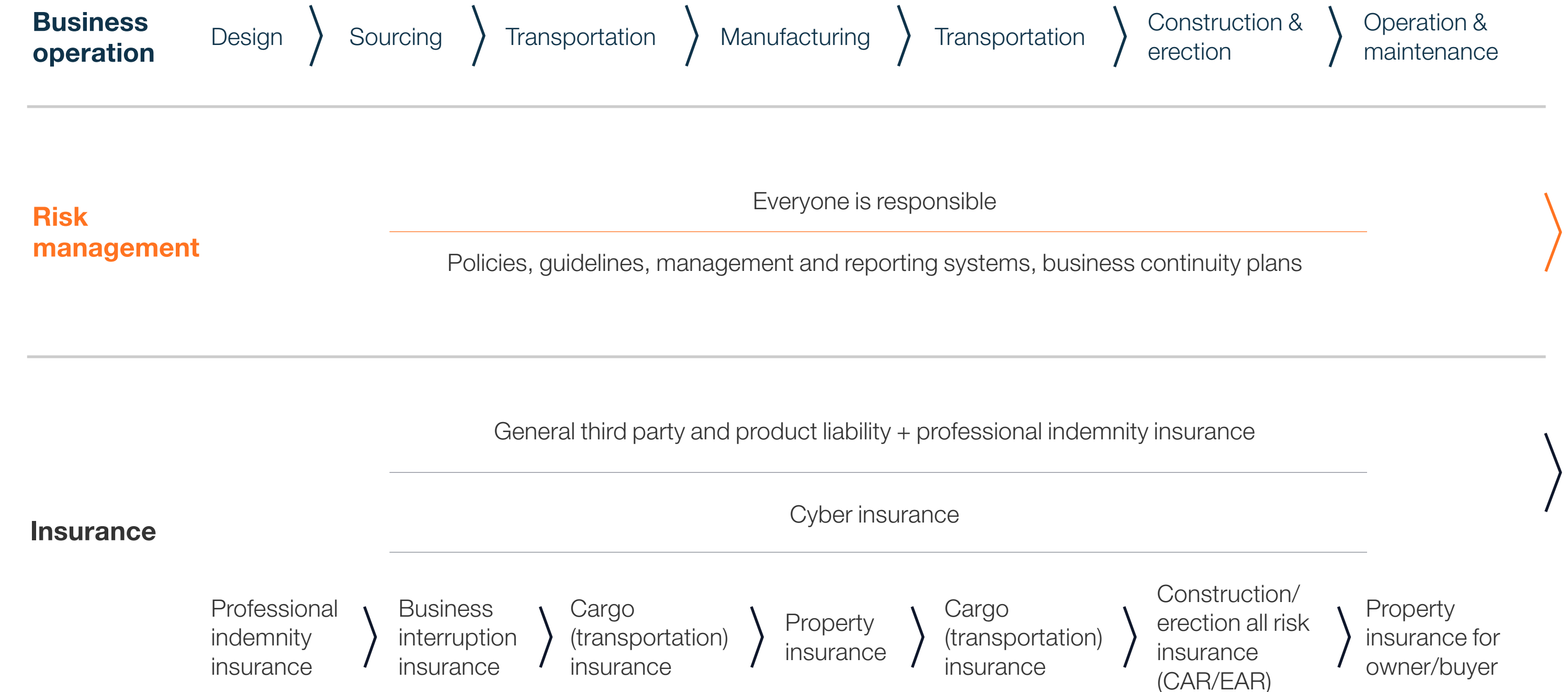
During 2020, the COVID-19 pandemic put risk management practices to the test. In January, a corporate cross-function and cross-business crisis response team was established, the focus being on employee safety, both in-house and while visiting customer sites, when travelling, and during remote work. The intention of this initiative is to ensure the continuity of Wärtsilä’s business and operations in a safe manner.

Environmental management systems are in place to mitigate environmental hazard risks. Wärtsilä maintains a register of all properties used and gives guidelines for the purchase, sale, rental, and security of premises, and uses external advisors for environmental audits.

None of Wärtsilä’s major facilities are located in natural disaster areas. Catastrophic peril related scenarios are identified and, where necessary, exposures are mitigated by, for example, elevating sites above the flood risk level or by constructing flood dikes. For Wärtsilä’s main sites, business impact analyses have been conducted and continuity plans created to cover both property and business interruption risks.

The risks that Wärtsilä is unable to influence through its own efforts are transferred, whenever possible, to insurance companies. Wärtsilä uses appropriate insurance policies to cover indemnity risks related to its personnel, assets, and business interruptions, including supplier triggered

WHICH INSURANCES COVER OUR BUSINESS?



Both risk management work and casualty insurance cover Wärtsilä’s products over their entire lifecycle.

interruptions, as well as third-party and product liability. Wärtsilä has established its own captive insurance company, Vulcan Insurance PCC Ltd. This risk management tool only insures Wärtsilä’s own risks. For insurance technical reasons, the company is located on the island of Guernsey. Vulcan Insurance PCC Ltd’s results are consolidated into the corporation’s books and are subject to normal taxation in Finland.

FINANCIAL RISKS

Wärtsilä’s financial risks are presented in the notes to the financial statements, [Note 5.8](#).

Risk profiles and responsibilities

Low ■■■■ High

Risks	Risk profile	Policy or other guideline	Responsible body
Strategic risks		Wärtsilä's strategy and business plans	Wärtsilä's Board of Directors (BoD), Board of Management (BoM), and businesses
Business environment risk	■■■■■	Wärtsilä's strategy and business plans	BoM and businesses
Market and customer risk	■■■■■	Wärtsilä's strategy and business plans	BoM and businesses
Competitive situation and price risk	■■■■■	Wärtsilä's strategy and business plans	BoM and businesses
Political and legislative risk	■■■■■	Various guidelines and risk management policy	Businesses, R&D, Risk management (RM) and Legal functions
Climate change and sustainability risk	■■■■	Quality, environmental, health and safety policy, Code of Conduct, management systems (ISO 14001 & OHSAS 18001)	Businesses, R&D and Sustainability function
Technology risk	■■■■	Patents and industrial rights, product guarantees	Businesses and R&D
Operational risks		Wärtsilä's strategy and business plans	BoM and businesses
Manufacturing risk	■■■■	Production systems, business continuity plan	Manufacturing and businesses
Supplier and subcontractor risk	■■■■■	Supplier requirement and supplier management system, business continuity plan	Businesses and Supply Management
Lifecycle quality of products and product liability risk	■■■■	Management system (ISO 9001), safety instructions and manuals, risk management policy, R&D risk elimination instructions	Manufacturing, R&D, businesses, RM, Quality, and Legal functions
Contractual risks	■■■■	Standard contracts, corporate sales contracting policy	Legal function and businesses
Commodity price risk	■	Production cost control	Businesses and Treasury function
Data security risk	■■■	Data security principles and cyber security strategy	Businesses and Information Management & Cyber Security function
Non-compliance risk	■■	Code of Conduct, Anti-Corruption policy, Compliance policy, whistle-blowing channel	Businesses and Compliance function

Low ■■■■ High

Risks	Risk profile	Policy or other guideline	Responsible body
Hazard risks		Risk management policy and guidelines	Businesses and RM function
Personnel risk	■	Management system (OHSAS 18001), travel safety instructions, crisis management guidelines, near-miss reporting and premises safety plans	Businesses, Human Resources, RM, as well as Environment, Health and Safety and Security functions
Natural catastrophes	■	Crisis management guidelines, business continuity plan	Businesses, RM and Security functions
Fire, cargo, and other accidents	■■■	Management systems (ISO 14001 & OHSAS 18001), premises safety plans	Businesses, RM and Real Estate functions
Financial risks		Wärtsilä's strategy and business plans	Businesses and Treasury function
Foreign exchange risk	■■	Treasury policy	Businesses and Treasury function
Interest rate risk	■■	Treasury policy	Businesses and Treasury function
Liquidity and refinancing risk	■■	Treasury policy	Businesses and Treasury function
Credit risk	■■■	Credit and Treasury policy	Businesses and Treasury function



FINANCIAL REVIEW

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

FINANCIAL REVIEW CONTENTS

Board of Director's report	144	3.4. Leases	191	Parent company financial statements	227
		3.5. Depreciation, amortisation and impairment	192	Parent company income statement	227
Five years in figures	159	4. Working capital and other balance sheet items	193	Parent company balance sheet	228
		4.1. Inventories	193	Parent company cash flow statement	229
Quarterly figures	161	4.2. Trade receivables and contract assets and liabilities	194	Accounting principles for the parent company	230
		4.3. Other receivables	196	Notes to the parent company financial statements	231
Calculations of financial ratios	163	4.4. Trade payables and other liabilities	196	Proposal of the Board	237
		4.5. Provisions	196		
Financial statements	165	4.6. Deferred taxes	197	Auditor's report	238
		4.7. Pension obligations	199		
Consolidated financial statements	165	5. Capital structure and financial items	202	Wärtsilä in the capital markets	243
Consolidated statement of income	165	5.1. Financial income and expenses	202		
Consolidated statement of comprehensive income	166	5.2. Financial assets and liabilities by measurement category	203	Information for shareholders	248
Consolidated statement of financial position	167	5.3. Cash and cash equivalents	205		
Consolidated statement of cash flows	168	5.4. Net debt reconciliation	206		
Consolidated statement of changes in equity	169	5.5. Equity	206		
Notes to the consolidated financial statements	171	5.6. Maturity analysis of financial liabilities	207		
1. Accounting principles for the consolidated financial statements	171	5.7. Derivative financial instruments	208		
1.1. Basic information	171	5.8. Financial risks	211		
1.2. Basis of preparation	171	6. Group structure	215		
1.3. New and amended IFRS standards	172	6.1. Acquisitions	215		
1.4. Management judgement and use of estimates	173	6.2. Disposals	216		
2. Group financial performance	174	6.3. Assets held for sale	216		
2.1. Segment information	174	6.4. Investments in associates and joint ventures	218		
2.2. Revenue recognition	178	6.5. Subsidiaries	220		
2.3. Other operating income and expenses	180	6.6. Exchange rates	222		
2.4. Material and services	181	7. Other notes	224		
2.5. Employee benefit expenses	181	7.1. Collateral, contingent liabilities, and other commitments	224		
2.6. Income taxes	182	7.2. Related party disclosures	225		
2.7. Earnings per share	182	7.3. Auditors' fees and services	225		
3. Intangible and tangible assets	183	7.4. Events after the balance sheet date	226		
3.1. Goodwill	183				
3.2. Other intangible assets	187				
3.3. Property, plant and equipment	189				

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

BOARD OF DIRECTOR'S REPORT

BUSINESS MODEL

Wärtsilä provides the marine and energy markets with smart technologies and optimised lifecycle services. In the energy industry, Wärtsilä offers flexible power plants as well as energy management and storage systems on an equipment only or turnkey delivery basis. The marine offering includes power systems, voyage solutions, as well as exhaust treatment applications, gas solutions, and shaft line solutions. Wärtsilä has the capabilities needed to combine its marine products into larger integrated systems and solutions. Wärtsilä's portfolio of services ranges from spare parts and technical expertise, to lifecycle solutions ensuring a maximised installation lifetime, increased efficiency, and guaranteed performance. The company aims at maximising environmental and economic performance by emphasising sustainable, data-driven innovation and total efficiency.

To support its geographically dispersed customer base, Wärtsilä's sales and service network covers 258 locations in 73 countries around the world. Wärtsilä operates primarily through its subsidiaries and strategic joint ventures. The company's manufacturing model is assembly based, thus emphasising the importance of developing long-term relationships with its global network of suppliers, which consists of approximately 1,200 global direct suppliers. Wärtsilä's personnel is made up of approximately 18,000 employees comprising 139 nationalities. By recruiting and retaining the best talent, Wärtsilä is able to be the most valued business partner to its customers, and the employer of choice for current and future employees. Wärtsilä is committed to conducting its business in a responsible manner, and promotes responsible practices throughout its value chain.

CEO APPOINTMENT

In September, Håkan Agnevall (b. 1966, M.Sc. (Tech), MBA) was appointed as the new President and CEO for Wärtsilä Corporation. Mr Agnevall assumed the role on 1 February 2021. He succeeds Jaakko Eskola, who will continue as a senior advisor to the Board and executive team until he retires on 30 June 2021.

Mr Agnevall has a proven record of developing organisations and businesses with a strong focus on customers, technology, and people. His experience in pioneering electrification and autonomous transportation will strengthen Wärtsilä's activities in corresponding areas.

STRATEGY

Strategy implementation in 2020

Despite the COVID-19 related disruptions to business operations, Wärtsilä's commitment to R&D activities has remained unchanged. The year saw progress in future-proofing engine technology in line with the global trend towards the decarbonisation of the energy and marine markets. This was demonstrated by the initiation of full-scale testing of ammonia as a fuel in Wärtsilä's four-stroke combustion engine, as well as with the announcement of efforts to develop the combustion process in gas engines to enable them over time to burn 100% hydrogen fuel. Several new concepts utilising connectivity and digitalisation to enhance efficiency, sustainability, and the safety of customer operations were also introduced. These included solutions for smart navigation, remote support services, as well as a cloud simulation platform enabling remote training. For the energy markets, Wärtsilä launched the Energy Transition Lab, an open-data platform for the energy industry to understand the impact of greater utilisation of renewable energy and

the effects of COVID-19, and help accelerate the energy transition.

Wärtsilä's emphasis on developing solutions utilising the latest technology, in line with its Smart Marine and Smart Energy strategies, resulted a number of important orders during the year. In the marine markets, Wärtsilä received several orders for hybrid solutions, including a contract to supply a fully integrated Wärtsilä hybrid solution for Misje Rederi's three newbuild eco-friendly 5,000 DWT bulk carriers. Moreover, the order from UltraShip Denmark to install the cloud-based Wärtsilä Fleet Operations Solution (FOS) across their entire fleet demonstrates market development towards digital solutions to improve efficiency and lessen environmental impact. In the energy sector, the need for flexible power solutions to support the expansion of renewable energy and secure grid reliability was illustrated by the resilience of activity in the energy storage markets. Awarded contracts included the first order for the GridSolv Quantum energy storage system, a fully integrated modular and compact solution that enables the rapid deployment of cost-effective energy storage. Another order reflecting the benefits of flexibility was the contract received in Europe to deliver four natural gas driven power plants with a combined output of nearly 300 MW. The new fast-starting plants will provide flexible system balancing as more renewable power is incorporated into the power system.

Collaboration with industry stakeholders is an essential element in the development of technologies needed to meet changing market requirements. Joint efforts included agreements aimed at accelerating the marine industry's ongoing digital transformation, developing autonomous shipping, and exploring the use of new technologies and alternative fuels to promote decarbonisation efforts.

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

While the health and safety of personnel is a continuous priority for Wärtsilä, it reached a new level of importance in 2020 with the onset of the global COVID-19 pandemic. Wärtsilä maintains a diverse global workforce with thousands of employees performing tasks onsite, either in the field or at customer premises. By establishing a global crisis response team and local country incident management teams, it was possible to monitor and act upon the rapidly developing situation. Global mobility was secured whilst observing appropriate safety and precautionary measures. Numerous Wärtsilä employees resorted to performing their work remotely. In order to accommodate this way of working, and to ensure that the change of routine functioned smoothly, Wärtsilä provided employees with digital collaboration tools and methods. Furthermore, guidelines and devices were provided to secure an appropriate working environment at their homes. Zero lost-time injuries continues to be the company's global target. During 2020, lost-time injury frequency was 2.03 (2.25), which represents a decrease of 10% compared to the previous year.

Financial targets and outcome in 2020

Wärtsilä's long-term financial target is to grow faster than global GDP, and to maintain its operating profit margin between 14% at the peak of the cycle and 10% at the trough. Furthermore, the target is to maintain gearing below

0.50, and to pay a dividend of at least 50% of earnings per share over the cycle.

Wärtsilä's financial performance in 2020 was below the long-term target, as a result of the effects of the COVID-19 pandemic on the company's demand environment and business operations. Net sales for 2020 declined by 11%, bringing Wärtsilä's five-year compound annual growth rate to -2%. The five-year compound annual growth rate of the global GDP was 2.3% (source: IMF estimate as of October 2020). Wärtsilä's comparable operating result amounted to EUR 275 million, which represents 6.0% of net sales. Gearing decreased to 0.18. The Board of Directors' proposed dividend of EUR 0.20 per share represents 88.2% of operational earnings.

THE YEAR 2020

Operating environment

Marine

The effects of the COVID-19 pandemic significantly affected the demand for equipment and services in the shipping and shipbuilding markets throughout 2020. The decline in seaborne trade and travel restrictions impacted the fleet utilisation rate, especially in the passenger sector, and limited the appetite for newbuild investments. As a result, only 815 vessels were contracted during the year (1,153 in 2019, excluding late

contracting) and the demand for spare parts and maintenance activities softened. The news released in November regarding COVID-19 vaccine results improved confidence in a recovery in both newbuild and service activities across all vessel segments.

Cruise operations were heavily affected by the travel restrictions and no-sail orders. Despite a marginal uptick in cruise activity towards the end of the year, the vast majority of the fleet remains idled. After the initial disruptions following the first virus outbreak, the ferry fleet was gradually reactivated over the summer, but was increasingly idled again in the fourth quarter as, on top of the typical seasonal unwinding, a new wave of COVID-19 hit the European markets. The offshore sector continued to be under severe pressure due to low oil demand. Limited exploration activity led to a decline in utilisation of drilling rigs and support vessels to levels similar to the post-2014 market cycle. Conversely, the expected growth in offshore wind projects generated demand for specialised vessels, providing newbuild and service opportunities in wind farm related vessels. In the LNG shipping sector, a positive trend in spot rates began in the third quarter as a result of the rapid increase in Asian LNG demand. This was due to seasonal factors as well as constrained supply resulting from outages at several liquefaction terminals. The containership market recovered rapidly from the initial shock posed by COVID-19. This recovery was supported by continuous gains in freight volumes resulting in higher freight rates and less idle capacity. Crude

Target

	Development in 2020	Development in 2019
Net sales growth faster than global GDP	-11%	0%
Comparable operating result margin between 10% and 14%	6.0%	8.8%
Gearing below 0.50	0.18	0.30
Dividend payment at least 50% of earnings per share over the cycle	88.2%*	130.8%

* Proposal of the Board of Directors

[BOARD OF DIRECTORS' REPORT >](#)
[FIVE YEARS IN FIGURES](#)
[QUARTERLY FIGURES](#)
[CALCULATIONS OF FINANCIAL RATIOS](#)
[FINANCIAL STATEMENTS](#)
[Consolidated financial statements](#)
[Consolidated statement of income](#)
[Consolidated statement of comprehensive income](#)
[Consolidated statement of financial position](#)
[Consolidated statement of cash flows](#)
[Consolidated statement of changes in equity](#)
[Notes to the consolidated financial statements \(IFRS\)](#)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

[Parent company financial statements](#)
[AUDITOR'S REPORT](#)
[WÄRTSILÄ IN THE CAPITAL MARKETS](#)
[INFORMATION FOR SHAREHOLDERS](#)

oil and product tanker earnings remained under significant pressure during the latter part of the year, as oil supply cuts and the unwinding of floating storage lowered the demand for oil. Although earnings for bulk carriers increased in the second half, thanks to a higher demand for iron ore from China, the number of idled vessels continues to be above normal levels.

The HSFO/VLSFO price differential narrowed significantly as a result of both the sharp decline in oil prices and improved VLSFO availability, thus negatively impacting the pace of scrubber retrofits and installations on newbuilds. After the positive news regarding COVID-19 vaccine breakthroughs in November, oil prices surged and, consequently, the price spread between bunker fuel types increased to around 80 USD per tonne. Nevertheless, the market for scrubber contracting is still characterised by a high degree of uncertainty, mostly due to the limited visibility on future price spreads.

While the pandemic has led to a significant contraction in trade volumes, it has also accelerated the digital transformation through new technologies and digital applications being adopted as a matter of necessity. The use of cloud-based remote solutions has also accelerated in response to restrictions on physical travel. Ship-to-port communications, as well as document and data exchange, are increasingly being handled electronically rather than via personal interaction, both on ships and in port. Furthermore, fleet optimisation and performance management technologies are increasingly being accepted as central in order to secure profitability in a competitive market.

Meanwhile, the path towards the decarbonisation of the shipping industry continued to gain pace. The share of alternative-fuel capable vessels among the total newbuild contracting increased during the year. LNG has cemented its position as the most widely adopted alternative fuel, as it enables immediate GHG emission reductions. Moreover, the dual-fuel engine technology used to burn LNG is fuel

flexible, thus mitigating business risks associated with future fuel related uncertainties. Zero-carbon fuels, such as biofuels, ammonia and hydrogen, are also gaining interest as are various energy saving technologies. The IMO released a plan in November to drive the shipping industry towards its ambitious decarbonisation targets, with a set of policies coming into force from 2022 onwards. At the same time, the European Parliament approved a proposal to include shipping in its emissions trading scheme (ETS). With new rules expected in the coming years that will require shipowners to reduce their emissions through technical or operational measures, there is a growing consensus that vessels should increasingly adopt interoperable network technology to link onboard machinery, navigation, cargo handling, and other systems. Such technology will reduce fuel consumption, while representing an important step towards decarbonisation and increased efficiency.

Energy

The COVID-19 pandemic and the resulting slowdown of economic activity had a negative impact on the global liquid and gas fuelled power plant markets throughout 2020. While the market situation has stabilised and is showing some improvement, the prevailing uncertainty regarding the duration, development, and economic impacts of the pandemic continues to result in customers postponing investments in new power plant capacity. Additionally, energy policies are being developed to drive ambitious decarbonisation targets, and utilities continue to update their investment strategies, which is causing uncertainty and delays in decision-making. However, activity in energy storage was at a good level, driven by the increasing need for short-term flexible capacity in power systems with a high share of renewables. While mobility restrictions affected the ability to perform service activities, the demand for services held up reasonably well, and customers continued to show interest in long-term service agreements.

Wärtsilä's market share in the up to 500 MW market segment was stable at 9% (9), while global orders for natural gas and liquid power plants increased by 3% to 16.6 GW during the twelve-month period ending in September 2020 (16.0 GW at the end of June). Global orders include gas turbine and Wärtsilä orders with prime movers over 5 MW in size. The data is gathered from the McCoy Power Report.

Order intake and order book

Wärtsilä's order intake in 2020 decreased by 18% to EUR 4,359 million (5,327) compared to the previous year. Uncertainty related to the COVID-19 pandemic and its long-term implications weakened demand across all businesses. Book-to-bill was 0.95 (1.03). Service order intake decreased by 16% to EUR 2,267 million (2,683), while equipment order intake decreased by 21% to EUR 2,091 million (2,644).

The order book at the end of the year decreased by 14% to EUR 5,057 million (5,878). Cancellations during the year were largely in line with normal low levels. Wärtsilä has implemented stricter requirements for the inclusion of new and existing projects in the order book. This resulted in orders amounting to approximately EUR 340 million being removed from the order book during the year, primarily due to lack of progress or milestone payments not being received, as well as some cancellations. Wärtsilä's current order book for 2021 deliveries is EUR 3,298 million (3,571).

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Net sales and operating result

Wärtsilä's net sales in 2020 decreased by 11% to EUR 4,604 million (5,170) compared to the previous year. Service net sales decreased by 10% to EUR 2,255 million (2,505). Equipment net sales decreased by 12% to EUR 2,349 million (2,665). Of Wärtsilä's net sales, approximately 65% was EUR denominated and 20% USD denominated, with the remainder being split between several currencies.

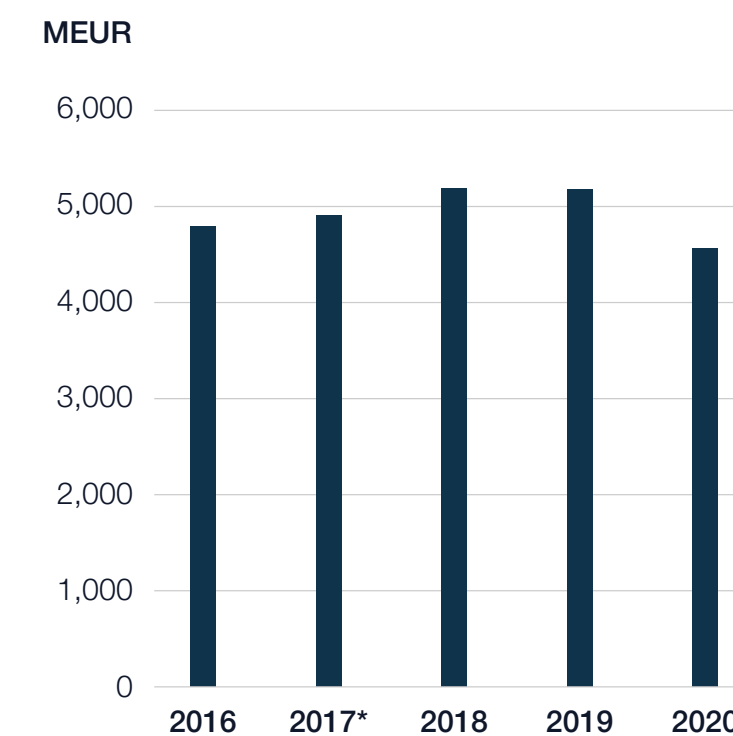
The operating result amounted to EUR 234 million (362) or 5.1% of net sales (7.0). The result was burdened by a decline in service volumes, COVID-19 driven cost inflation, and weaker fixed cost absorption. The comparable operating result totalled EUR 275 million (457) or 6.0% of net sales (8.8). Items affecting comparability comprised costs related to divestments and restructuring programmes of EUR 41 million (95). The comparable adjusted EBITA amounted to EUR 308 million (498) or 6.7% of net sales (9.6). Purchase price allocation amortisation amounted to EUR 33 million (41).

Financial items amounted to EUR -43 million (-47). Net interest totalled EUR -10 million (-12). Profit before taxes amounted to EUR 191 million (315). Taxes amounted to EUR 58 million (97), implying an effective tax rate of 30.3% (30.7). Profit for the financial year amounted to EUR 133 million (218). Earnings per share totalled 0.23 euro (0.37). Return on investment (ROI) was 7.1% (11.5), while return on equity (ROE) was 5.8% (9.0).

Megawatts delivered

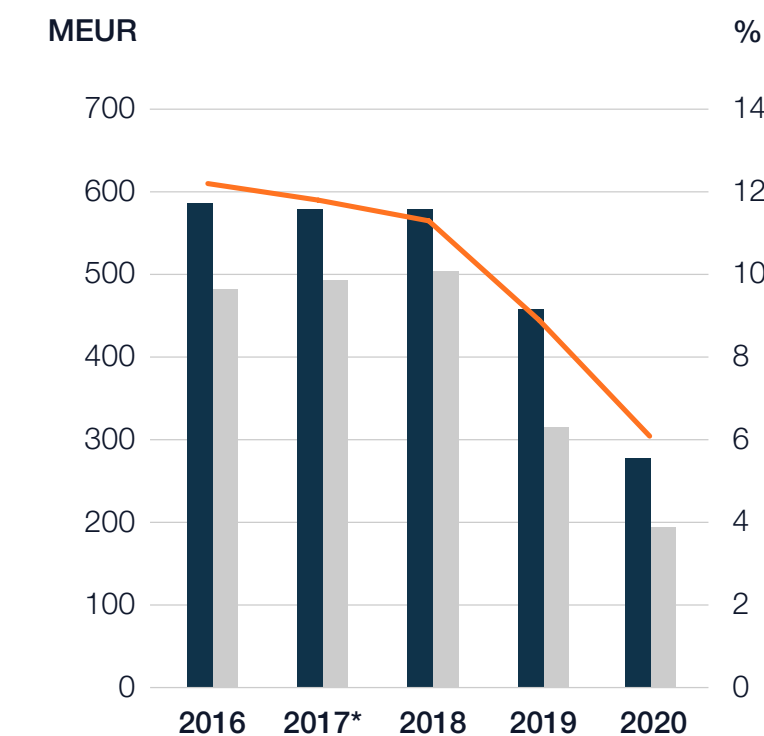
	2020	2019	Change
Marine Power	1,257	1,505	-16%
Energy	1,172	2,072	-43%
Wärtsilä total	2,429	3,577	-32%
By joint venture	274	432	-37%
Deliveries total	2,703	4,009	-33%

Group net sales development



* Restated due to IFRS 15

Result



* Restated due to IFRS 15

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Financing and cash flow

Wärtsilä's cash flow from operating activities in 2020 increased to EUR 681 million (232), thanks to improved working capital. Working capital decreased to EUR 257 million at the end of the year (732), driven by lower inventories, as well as by efforts to reduce credit risk through strengthening the collection of receivables. Advances received totalled EUR 452 million (452). Additionally, EUR 38 million of advances pertained to assets held for sale.

Wärtsilä aims to ensure sufficient liquidity at all times through efficient cash management and by maintaining the availability of sufficient committed and uncommitted credit lines. Refinancing risk is managed by having a balanced and sufficiently long loan portfolio. Wärtsilä has focused on

further strengthening its liquidity reserves during the year in response to the COVID-19 pandemic. Measures taken include the extension of revolving credit facilities and the negotiation of additional loan facilities.

Cash and cash equivalents amounted to EUR 919 million at the end of the year (358). Additionally, EUR 14 million of cash and cash equivalents pertained to assets held for sale (11). Unutilised committed credit facilities totalled EUR 660 million (640).

Wärtsilä had interest-bearing debt totalling EUR 1,327 million at the end of the year (1,096). The total amount of short-term debt maturing within the next 12 months was EUR 198 million. Long-term loans amounted to EUR 1,129 million.

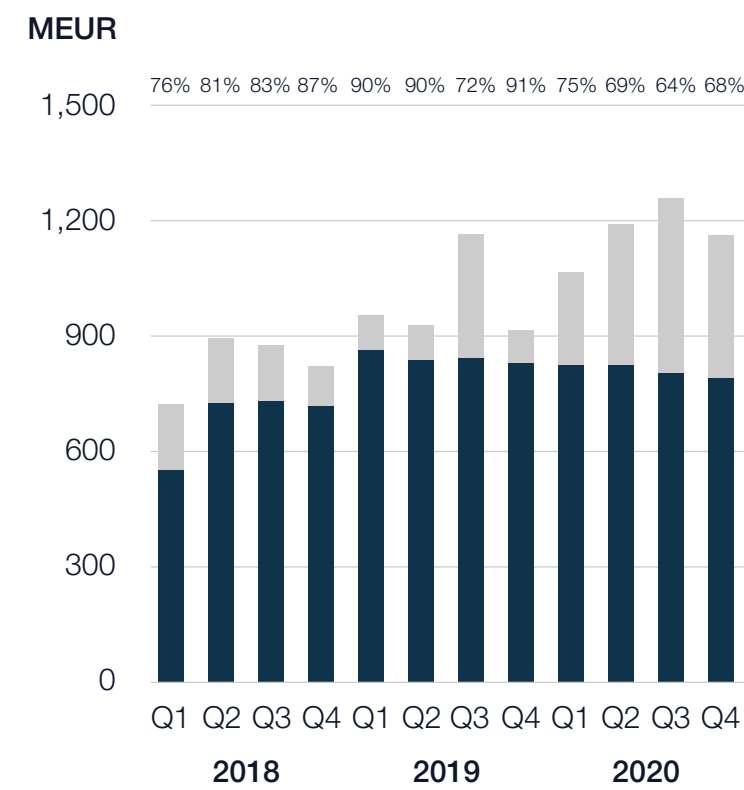
Net interest-bearing debt totalled EUR 394 million (726). Gearing was 0.18 (0.30), while the solvency ratio was 38.1% (40.8). Equity per share was 3.68 euro (4.05).

Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 115 million (116) in 2020. Capital expenditure related to acquisitions and investments in securities totalled EUR 2 million (6). Depreciation, amortisation, and impairment amounted to EUR 174 million (180).

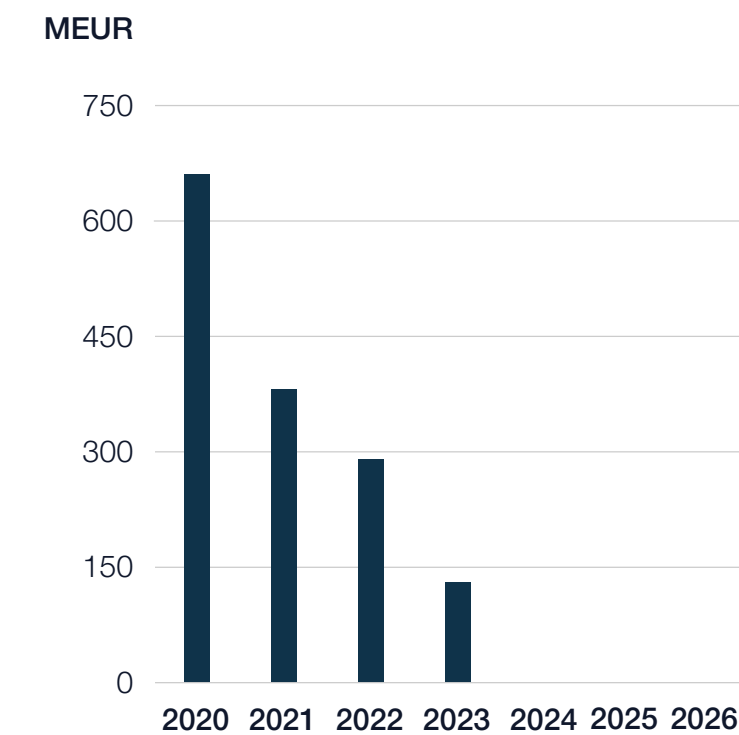
In 2021, capital expenditure related to intangible assets and property, plant, and equipment is expected to be below depreciation, amortisation, and impairment.

Loans

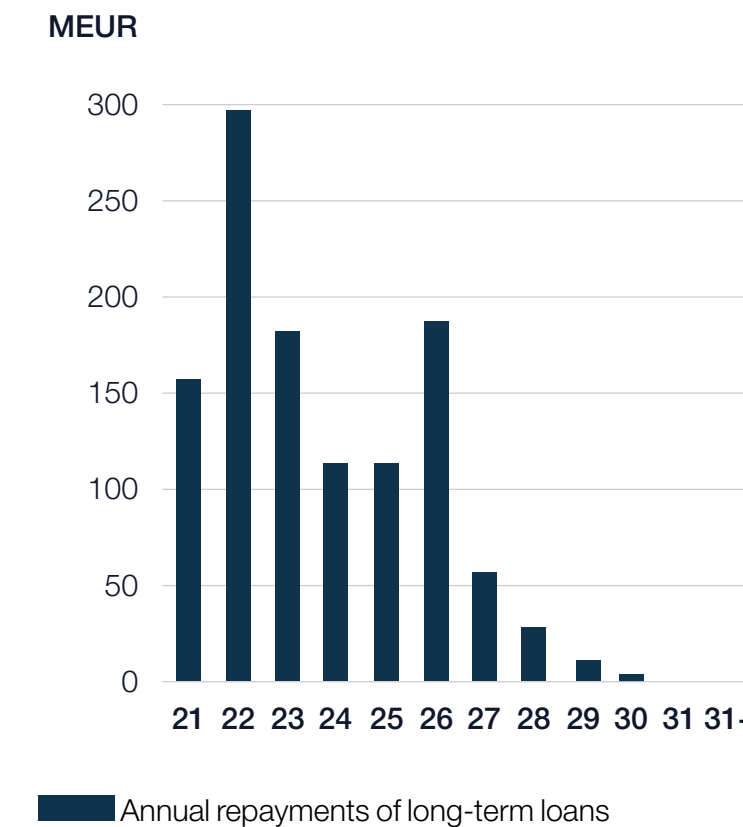


■ Fixed rate loans
■ Floating rate loans
% = Fixed portion of loans (incl. derivatives)

Committed revolving credit facilities (end of period)

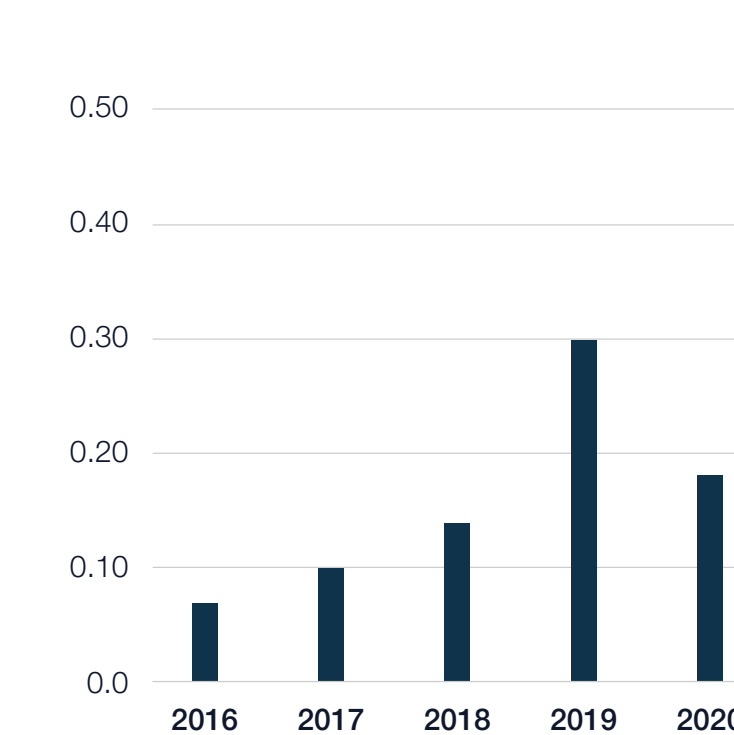


Maturity profiles of long-term loans

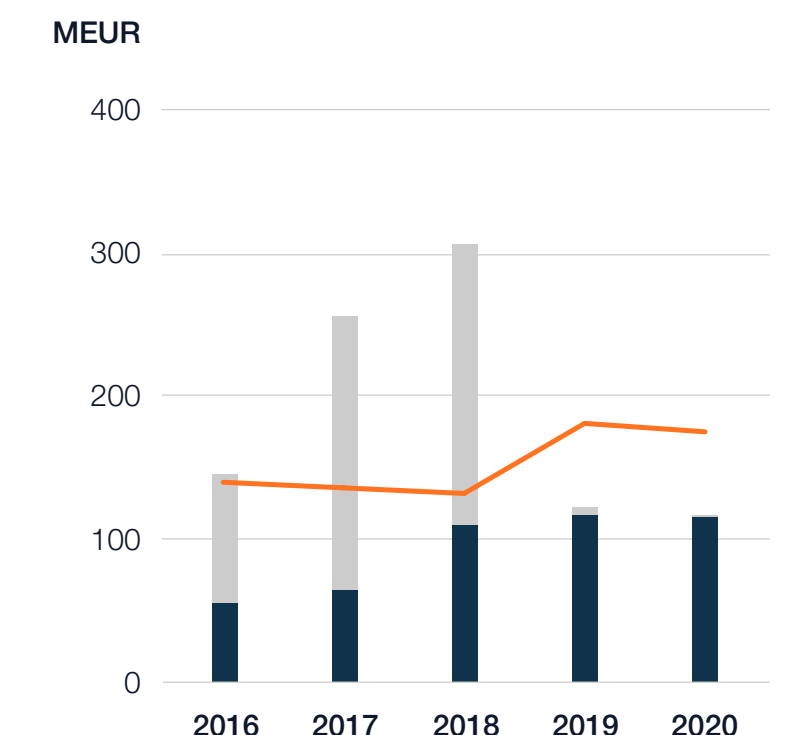


■ Annual repayments of long-term loans

Gearing



Gross capital expenditure



■ Other capital expenditure
■ Related to acquisitions
— Depreciation, amortisation, and impairment

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Innovations, research and development

Wärtsilä is committed to helping minimise the environmental footprint of the maritime and energy industries. Investments in R&D are central to securing Wärtsilä's future positioning, and will continue despite the prevailing market uncertainty.

Developing the use of alternative, commercially viable, and environmentally friendly fuels for the future is a key focus area of research and development, as is improving the connectivity, efficiency, sustainability, and safety of customer operations through the increased use of digital solutions. With its lifecycle solutions offering, Wärtsilä goes beyond mere maintenance and operation by delivering guaranteed performance based on mutually agreed target levels. Research and development expenditure totalled EUR 153 million (164) in 2020, which represents 3.3% of net sales (3.2).

Marine

In the development of viable future fuels Wärtsilä, in close cooperation with Knutsen OAS Shipping AS, Repsol, and Sustainable Energy Catapult Centre, initiated the world's first long-term, full-scale testing of ammonia as a fuel in a marine 4-stroke combustion engine in 2020. The testing is supported by a NOK 20 million grant from the Norwegian Research Council through the DEMO 2000 programme.

Key developments in the context of portfolio enhancements included the completion of full-scale testing of Wärtsilä's LPG fuel supply system with a full-sized 2-stroke marine engine burning liquid petroleum gas (LPG) as fuel. The tests were completed by retrofitting the system on four very large gas carriers (VLGC) owned by the Norwegian operator BW LPG. In addition, Wärtsilä launched its FuelFlex Injection Control Unit upgrade solution to meet the requirements of operating RT-flex type 2-stroke diesel engines with both residual and low-viscosity marine fuels. This is particularly relevant in view of the industry's increasing use of low-sulphur-content fuels in order to be compliant with sulphur

emission regulations. Wärtsilä also introduced its Compact Reliq reliquefaction plant, designed to reliquefy boil-off gas (BOG) onboard gas carriers and LNG bunker vessels and keep the cargo cool under all operational conditions. Thanks to its compact design, the system can be installed on existing vessels without extensive modification work. During the year, Wärtsilä also upgraded the power output of the Wärtsilä 31DF dual-fuel engine, further heightening the engine's sustainability factor as a result of lower greenhouse gas emissions, while allowing a reduction in both installation and maintenance costs.

As the shipping industry enters a new era of innovation and unprecedented efficiency, Wärtsilä is using high levels of connectivity and digitalisation to bring value and optimisation to all marine applications, and to enhance the efficiency, sustainability, and safety of customer operations. Achievements in the field of smart navigation included the launch of Navi-Port, a new solution for the seamless exchange of data between ship and shore, enabling just-in-time arrival. This was implemented in collaboration with Carnival Maritime and the Hamburg Vessel Coordination Center (HVCC). Moreover, Wärtsilä Voyage and PSA Marine successfully completed initial sea trials for the 'IntelliTug' project in Singapore, thereby proving IntelliTug's capability to avoid a variety of obstacles, including virtual and real-life moving vessels. It was the first trial to use the Maritime and Port Authority of Singapore's (MPA) Maritime Autonomous Surface Ship (MASS) regulatory sandbox, which was established to facilitate the testing of MASS and other autonomous technologies in a safe and controlled environment within the Port of Singapore. Wärtsilä also successfully trialled the Wärtsilä SmartMove Suite, a unique pairing of sensor technology with navigation systems for semi-autonomous ship movement. The American Steamship Company became the first to install Wärtsilä SmartMove solutions, which will be used for hands-off transit along the Cuyahoga River in Ohio, USA.

The year 2020 also saw the launch of a number of remote support services. These included the global Smart Support Centre service, which is designed to deliver operational support via virtual service engineers to all Wärtsilä Voyage equipment, and the Assured Operations remote support service for Wärtsilä 4-stroke and 2-stroke engine customers. This enables technical experts to assess and resolve operational issues via a remote connection between seagoing vessels and Wärtsilä's Expertise Centres. During the year, Wärtsilä also made the digital predictive maintenance product Expert Insight available for 2-stroke engines. The company simultaneously released a minimum viable product for remote monitoring of scrubbers to provide continuous fleet-wide insight into vessel compliance and scrubber utilisation. Moreover, Wärtsilä Voyage expedited the launch of Wärtsilä's new cloud simulation platform to enable maritime academies and seafarer schools to continue training despite the lockdowns and distancing imposed by the COVID-19 outbreak. The solution was selected by Anglo-Eastern, a leading ship management company, to provide online capacity for the company's training centres in India, the Philippines, and Ukraine. The cloud-based simulators are being used for navigation, engineering, and liquid cargo handling training.

Energy

In line with its aim to lead the transition towards a 100% renewable energy future, Wärtsilä launched the Energy Transition Lab, an open-data platform for the energy industry to understand the impact of greater utilisation of renewable energy and the effects of COVID-19, and help accelerate the energy transition. The tool provides detailed data on electricity generation, demand, and pricing for the EU countries and the UK. It allows users to model how systems could operate in the future with more renewables, helping to pinpoint problem areas and highlighting where to focus policies and investments.

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

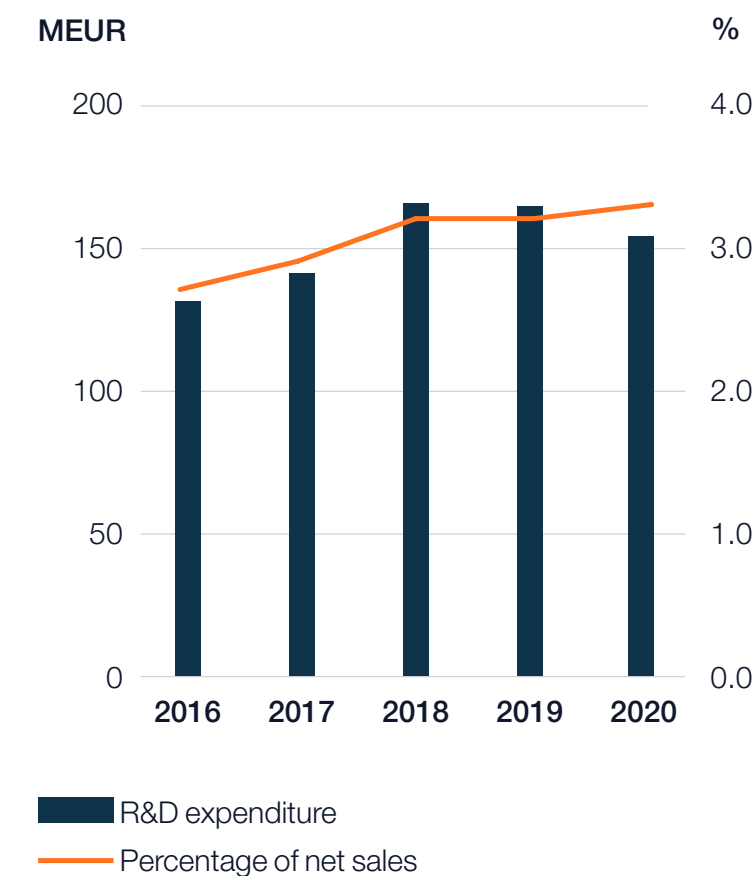
INFORMATION FOR SHAREHOLDERS

Key achievements in the advancement of engine technology included Wärtsilä's highly efficient 12 MWe Wärtsilä 31SG gas-fuelled generating set being awarded type certification by the classification society DNV GL. This is globally the largest synchronous generating set of this technology to have been awarded the unit certificate after full-scale testing. The certification verifies the design and engineering standards as being in full compliance with Germany's grid code requirements, the first country in Europe to have implemented guidelines for grid code compliance, although other countries have already or are in the process of requiring similar compliance. Wärtsilä also announced during the year that it is developing the combustion process in its gas engines to enable them over time to burn 100% hydrogen fuel. Wärtsilä has researched hydrogen as a fuel for 20 years, and has tested its engines with blends of up to 60% hydrogen and 40% natural gas. This development is part of the company's strategy to future-proof its engine technology in line with the global trend towards decarbonisation of the energy and marine markets. In addition to hydrogen, other potential renewable fuels are being studied for future applications. Wärtsilä engines are already capable of combusting 100% synthetic carbon-neutral methane and methanol.

Developments in the area of Power-to-X included funding granted by Business Finland for the X-Ahead project, as well as an agreement with Vantaa Energy Ltd. regarding a joint concept feasibility study for a power-to-gas facility at Vantaa Energy's waste-to-energy plant in the city of Vantaa. The X-Ahead project aims at developing deep expertise in both the technical and business potential of Power-to-X, which will be used to promote a carbon-neutral economy in Finland. It will also act as a base for defining Wärtsilä's role in this field as part of the global transition to carbon-neutral solutions. Vantaa Energy's power-to-gas facility would produce carbon-neutral synthetic biogas using carbon dioxide emissions and electricity generated at the waste-to-

energy plant. The purpose of the joint study is to confirm the optimal size of the project and the cost of synthetic biogas for district heating, as well as to understand the boundary conditions for project feasibility.

Research and development expenditure



Strategic projects

In February, Wärtsilä and DNV GL agreed to work together to contribute to the marine industry's ongoing digital transformation. In particular, the two companies wish to further explore the potential use of digital technologies, collaborative data sharing, and standardisation to enhance the performance of existing products and services, and to develop new ones. The project will examine the application of digital technologies in areas such as autonomous ships, advanced remote services, new bridge technologies, and data sharing. Cyber security will be another natural area of cooperation.

In March, Wärtsilä together with a consortium of six other industry and academic partners, was awarded EU funding for a major project named SeaTech. The project is aimed at reducing fuel consumption and lowering emission levels for shipping by developing ship engine and propulsion systems to enable precise control of the engine and capturing wave energy to produce extra thrust. Wärtsilä also signed a licence and cooperation agreement covering the future development, sales, and servicing of gate rudders with Kuribayashi Steamship in Japan. As an authorised licence holder and partner, Wärtsilä intends to fully integrate gate rudders within its propulsion product designs and will focus on global markets outside Japan. Gate rudder technology lowers fuel consumption and reduces emissions, while improving manoeuvrability and course stability in both calm and rough seas.

In June, Wärtsilä joined a global consortium to develop the Mayflower Autonomous ship project, which will enable the world's first fully autonomous, unmanned vessel to cross the Atlantic. Wärtsilä Voyage will equip the ship with the Wärtsilä RS24 system, a ground-breaking high-speed, high-resolution FMCW K-Band radar designed to provide optimised levels of situational awareness, especially in densely populated marine environments. Wärtsilä also joined ING Bank, Engie, and the Port of Rotterdam Authority to form Zero Emission Services B.V. (ZES), an enterprise aimed at making inland waterway shipping more sustainable. The concept is based on the use of replaceable battery containers charged with renewable energy. It will be utilised, among others, by the Heineken beer company and is supported by the Dutch Ministry of Infrastructure and Water Management.

In July, Wärtsilä joined a global coalition dedicated to accelerating the energy transition in the transport and logistics industries, together with a cluster of market-leading companies representing a broad spectrum of

[BOARD OF DIRECTORS' REPORT >](#)
[FIVE YEARS IN FIGURES](#)
[QUARTERLY FIGURES](#)
[CALCULATIONS OF FINANCIAL RATIOS](#)
[FINANCIAL STATEMENTS](#)
[Consolidated financial statements](#)
[Consolidated statement of income](#)
[Consolidated statement of comprehensive income](#)
[Consolidated statement of financial position](#)
[Consolidated statement of cash flows](#)
[Consolidated statement of changes in equity](#)
[Notes to the consolidated financial statements \(IFRS\)](#)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

[Parent company financial statements](#)
[AUDITOR'S REPORT](#)
[WÄRTSILÄ IN THE CAPITAL MARKETS](#)
[INFORMATION FOR SHAREHOLDERS](#)

industry stakeholders. The aim of the coalition is to drive the development of energy sources and technologies in order to curb global warming, reduce air pollution, and protect biodiversity. The members will pool their R&D efforts in pursuit of three key goals: unlocking a more extensive portfolio of clean energy sources, lowering energy consumption per kilometre-equivalent for transported goods, and eliminating a substantial proportion of the harmful emissions being released into the atmosphere.

In October, Wärtsilä signed a Memorandum of Understanding (MoU) tied to a licence and cooperation agreement with the UK-based Anemol Marine Technologies for the future sales and servicing of rotor sail solutions to the shipping industry. Rotor sails are comprised of vertical cylinders which, when driven to rotate, harness the renewable power of the wind to propel ships. These highly efficient mechanical sails will provide additional thrust to vessels and deliver significant fuel and emission savings. Wärtsilä will fully integrate Anemol Marine Technologies' rotor sails within its propulsion business and promote the solution for both newbuild projects and for retrofitting to existing ships.

In December, Wärtsilä joined the CHEK project which aims to achieve zero emissions shipping. The project will develop and demonstrate a wind energy optimised bulk carrier, and a hydrogen powered cruise ship equipped with a combination of innovative technologies to reduce greenhouse gas emissions by 99%, achieve at least 50% energy savings, and reduce black carbon emissions by over 95%. The CHEK partners are the University of Vaasa (coordinator), Wärtsilä, Cargill International, MSC Cruises, Lloyd's Register, the World Maritime University, Silverstream Technologies, HASYTEC Electronics, Deltamarin, Climeon, and BAR Technologies.

Capacity adjustments

In March, Wärtsilä announced that proactive steps would be taken to minimise the negative business impact of the COVID-19 pandemic and the measures initiated to contain it. These included reducing working hours and initiating temporary layoffs, as well as streamlining hiring and minimising the use of external personnel and consultants. Discretionary spending was also reduced and non-critical development projects postponed. Decisions on temporary cost reduction actions were taken in key countries where such measures were deemed necessary. The actions taken resulted in temporary cost savings of approximately EUR 100 million being recognised during the year, which was in line with initial expectations. The market situation is continuously monitored, and further actions will be taken as needed.

Changes in organisational structure

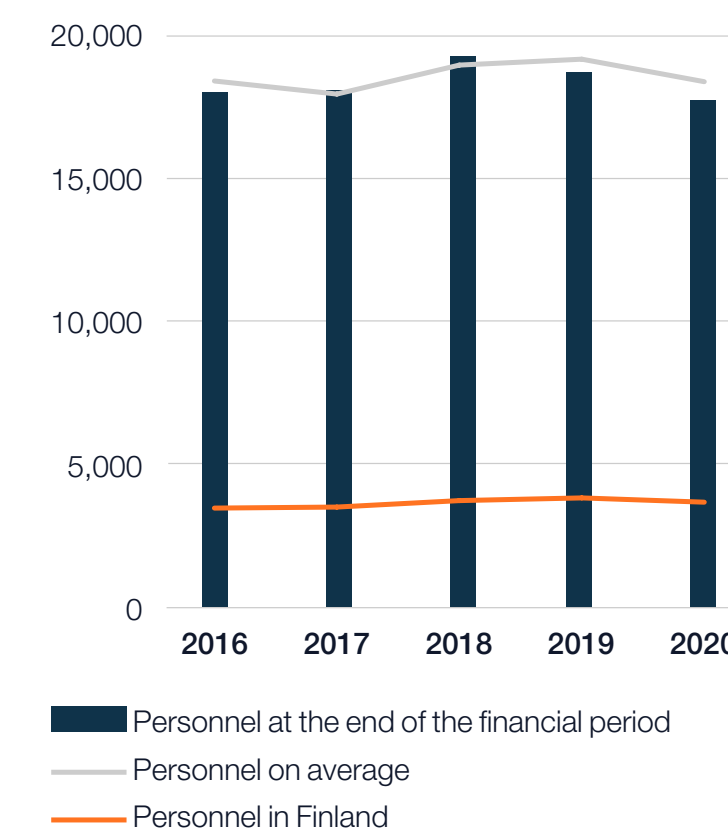
Wärtsilä's new organisational structure became operational on 1 July 2020. With the new structure, Wärtsilä aims to accelerate strategy execution and drive long-term performance. Marine Power, Marine Systems, and Energy will focus on delivering profitable growth by strengthening their offering of solutions and lifecycle value propositions. Established through the combination of acquisitions during the past few years, notably Eniram and more recently Transas, Voyage positions Wärtsilä as a market leader in digital solutions for the commercial marine industry. Voyage's focus will be on scaling and developing the business, with the support of continued investments in R&D, sales and marketing, in order to create a basis for sustainable, profitable growth over the long-term. Portfolio Business is run as an independent entity, with the objective of unlocking the value of business units that are not central to Wärtsilä's strategy.

Personnel

Wärtsilä had 17,792 (18,795) employees at the end of the year. On average, the number of personnel totalled 18,307 (19,110) in the year of 2020.

Of Wärtsilä's total number of employees, 21% (20) were located in Finland and 41% (42) elsewhere in Europe. Personnel employed in Asia represented 22% (23) of the total, personnel in the Americas 11% (11), and personnel in other countries 5% (4).

Personnel



BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Changes in management

In addition to the appointment of a new President and CEO, the below changes in Wärtsilä's Board of Management took place during 2020:

Following the announcement that Wärtsilä's Marine Business would be reorganised into three independent businesses, Roger Holm (b. 1972, M.Sc. Economics), previously the President of Wärtsilä Marine Business and Executive Vice President, was appointed President of Wärtsilä Marine Power and Executive Vice President as of 5 March 2020, Tamara de Gruyter (b. 1972, B.Sc. Shipbuilding Engineering) was appointed President of Wärtsilä Marine Systems and Executive Vice President as of 5 March 2020, and Sean Fernback (b. 1963, Dipl. Electronics Engineering) was appointed President of Wärtsilä Voyage and Executive Vice President as of 4 May 2020.

In July, Sushil Purohit (b. 1972, B.Sc. (Eng.), MBA) was appointed President of Wärtsilä Energy and Executive Vice President as of 3 August 2020. He replaced Marco Wirén, who left Wärtsilä on 31 August 2020 for a position outside the Group.

Non-financial report

Increasing environmental awareness is resulting in fundamental changes in both the marine and energy industries. Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources, as well as to support its customers in preparing for new regulatory requirements. Wärtsilä's R&D efforts continue to focus on the development of advanced environmental technologies and solutions. The company is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment, and anti-corruption. Wärtsilä is also committed to supporting the UN Sustainable Development Goals that deal with issues to which Wärtsilä

contributes in a positive way. Such goals include those related to clean energy, a low-carbon marine ecosystem, and responsible business conduct.

Responsible business conduct

The Wärtsilä Code of Conduct defines common rules for all employees, and provides guidance on Wärtsilä's approach to responsible business practices. The Code of Conduct is complemented by group-wide policies, including the quality, environmental, health and safety policy, the corporate policy on equal opportunities and fair employment practices, as well as policies related to anti-corruption, compliance reporting, and sourcing and purchasing.

Wärtsilä takes an active approach to the application of the Code of Conduct and promotes its implementation through the effective communication of its contents to its employees. Wärtsilä monitors the application of the Code internally to ensure understanding and commitment throughout the organisation. At the end of 2020, 17,039 employees, covering 96% of the total number of employees, had participated in the Code of Conduct training programme.

Suppliers and business partners are an integral part of the total value chain of the products and services of Wärtsilä. They are expected to conduct their businesses in compliance with the same high legal and ethical standards and business practices as Wärtsilä. Information on Wärtsilä's requirements is included in supplier agreement templates.

Environmental performance

Wärtsilä's main contribution to improved environmental performance lies in providing its customers with reliable and safe technologies and services, which, in addition to enabling environmental compliance, support the sustainable development of the marine and energy industries. Wärtsilä's products and solutions are designed to operate for up to 30 years. Therefore, focusing R&D efforts on improving

the product or system level performance is crucial, as is adopting a lifecycle approach to performance optimisation. In addition to improving the environmental performance of its products and solutions, Wärtsilä also continuously monitors the impact caused by its own activities and targets reduced energy consumption in its facilities.

Wärtsilä's quality, environmental, health and safety policy sets principles for managing the environmental impacts of Wärtsilä's products and services. The potential risks related to environmental matters and climate change are in the areas of regulatory emission restrictions and changes in customer attitudes to using combustion engines and fossil fuels. Risks are managed by focusing on product efficiency improvement and emission reduction in R&D activities, as well as by developing a wide product offering, including technologies related to waste reduction, noise abatement, and effluent and ballast water treatment. During 2020, R&D investments totalled EUR 153 million, which represents 3.3% of net sales. The majority of these investments targeted improved environmental performance. Significant achievements related to sustainable innovation included the progress made in developing engine technology to burn zero-carbon fuels. For the marine markets, Wärtsilä launched several solutions in support of its Smart Marine Ecosystem vision, including solutions for smart navigation, a number of remote support services, as well as a cloud simulation platform enabling remote training. In the energy sector, Wärtsilä introduced the GridSolv Quantum energy storage system, a fully integrated modular and compact solution that enables the rapid deployment of cost-effective energy storage, as well as data-based solutions to better understand the impact of the energy transition.

Social and employee matters

Wärtsilä is a responsible employer, offering employees a workplace where openness, respect, trust, equal opportunities, and scope for personal development prevail.

[BOARD OF DIRECTORS' REPORT >](#)
[FIVE YEARS IN FIGURES](#)
[QUARTERLY FIGURES](#)
[CALCULATIONS OF FINANCIAL RATIOS](#)
[FINANCIAL STATEMENTS](#)
[Consolidated financial statements](#)
[Consolidated statement of income](#)
[Consolidated statement of comprehensive income](#)
[Consolidated statement of financial position](#)
[Consolidated statement of cash flows](#)
[Consolidated statement of changes in equity](#)
[Notes to the consolidated financial statements \(IFRS\)](#)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

[Parent company financial statements](#)
[AUDITOR'S REPORT](#)
[WÄRTSILÄ IN THE CAPITAL MARKETS](#)
[INFORMATION FOR SHAREHOLDERS](#)

Wärtsilä is a signatory of the UN Global Compact initiative and supports the work-related rights defined by the International Labour Organization (ILO). Wärtsilä's corporate policy on equal opportunities and fair employment practices creates a common framework for employee practices in all Wärtsilä companies. People management processes, tools, and ways of working are developed to ensure consistency across national and organisational boundaries. Wärtsilä has a global job grading system and rewarding principles to ensure transparency and fairness for all employees, which are followed by all the entities in Wärtsilä globally.

The objective of Wärtsilä's people management strategy is to ensure that the businesses have the required resources, and skilled and motivated people at their disposal. In order to develop their competences, employees are offered a wide variety of internal training courses, including topics like technology, health and safety, language and culture, project management, environment, security, and leadership. The average number of learning days was 1.1 per employee in 2020.

Wärtsilä aims at offering its employees and contractors a hazard-free working environment, and at minimising the health and safety risks associated with the use of its products and services. The company's occupational health and safety principles are defined in the Code of Conduct, the quality, environmental, health and safety (QEHS) policy, and in the directive on environment, health, and safety (EHS). Wärtsilä's units are required to have a management system in place that conforms to the QEHS Policy and the EHS directive. In addition to the management system, Wärtsilä companies apply occupational health and safety programmes as required by local legislation. Wärtsilä's aim is to reach a long-term goal of zero injuries. In 2020, the corporate lost-time injury frequency rate was 2.03 (2.25).

Respect for human rights

Wärtsilä supports and respects basic human values as outlined in the UN's universal declaration of human rights. Wärtsilä is also a signatory of the UN Global Compact and is thereby committed to its principles with respect to human rights, labour, the environment, and anti-corruption. No employee is allowed to take any action that violates these human rights principles, either directly or indirectly. Wärtsilä does not accept the use of forced labour or child labour in any form. Human and labour rights are a part of the Code of Conduct training material, and are included in Wärtsilä's policy on equal opportunities and fair employment practices as well as in the company's supplier handbook.

Anti-corruption and bribery matters

Wärtsilä's Code of Conduct, anti-corruption policy, and broker directive expressly prohibit the company and its employees from offering or accepting any kind of benefit considered a bribe and from taking actions that could give rise to a conflict of interest or breach of loyalty. The instructions make it compulsory to comply with anti-corruption laws of all the countries in which Wärtsilä does or intends to do business and urge the reporting of any cases of corruption and bribery.

Wärtsilä is aware of the risk of being subject to fraud by external business parties, and that the risk of corruption and fraud is heightened in many markets where the company operates. Therefore, full compliance with a stringent anti-corruption regime is required of all employees. An extensive training programme is in place for personnel on anti-corruption principles and applicable legislation as well as the relevant company policies and procedures. By the end of 2020, 93% of Wärtsilä's employees had participated in anti-corruption trainings. Employees are encouraged to provide feedback and communicate suspected misconduct to line management or directly to the Compliance, Legal Affairs, or Internal Audit function. Wärtsilä also has a dedicated tool through which employees can report infringements.

Reporting segments

Wärtsilä Marine Power

Marine Power's order intake in 2020 decreased by 23% to EUR 1,737 million (2,247) compared to the previous year. Book-to-bill was 0.99 (1.17). Service order intake decreased by 19% to EUR 1,070 million (1,315), with the largest decline seen in the cruise segment where vessel utilisation remained low throughout the year. Equipment order intake decreased by 28% to EUR 667 million (931). Demand was the highest in the merchant segment which, including both traditional merchant vessels and gas carriers, represented 35% and 42% of the order intake of equipment and services, respectively. Orders received from this segment included a sizeable order to supply dual-fuel engines to six new LNG vessels and a contract to supply a fully integrated Wärtsilä hybrid solution for Misje Rederi's three newbuild eco-friendly 5,000 DWT bulk carriers. Other noteworthy orders included a contract to supply the engines and a range of electric solutions for two new ferries under construction for Finnlines, as well as a contract to supply Wärtsilä 14 EUR Stage V compliant engines and related emissions control after-treatment systems for two new passenger ferries being built for operation between Switzerland and France. The order book at the end of the year decreased by 9% to EUR 1,839 million (2,019).

Net sales decreased by 9% to EUR 1,748 million (1,923) compared to the previous year. Service net sales decreased by 14% to EUR 1,096 million (1,279), while equipment net sales increased by 1% to EUR 652 million (643). The comparable operating result amounted to EUR 137 million (273) or 7.8% of net sales (14.2). The result was burdened by the COVID-19 related decline in the service business, as well as by weaker absorption of fixed costs and lower utilisation.

Wärtsilä Marine Systems

Marine Systems' order intake in 2020 decreased by 28% to EUR 539 million (754) compared to the previous year, as reduced fuel spreads scaled back scrubber investments.

[BOARD OF DIRECTORS' REPORT >](#)
[FIVE YEARS IN FIGURES](#)
[QUARTERLY FIGURES](#)
[CALCULATIONS OF FINANCIAL RATIOS](#)
[FINANCIAL STATEMENTS](#)
[Consolidated financial statements](#)
[Consolidated statement of income](#)
[Consolidated statement of comprehensive income](#)
[Consolidated statement of financial position](#)
[Consolidated statement of cash flows](#)
[Consolidated statement of changes in equity](#)
[Notes to the consolidated financial statements \(IFRS\)](#)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

[Parent company financial statements](#)
[AUDITOR'S REPORT](#)
[WÄRTSILÄ IN THE CAPITAL MARKETS](#)
[INFORMATION FOR SHAREHOLDERS](#)

Book-to-bill was 0.67 (0.79). Service order intake decreased by 11% to EUR 205 million (230). Equipment order intake decreased by 36% to EUR 334 million (523). Noteworthy orders received during the year included the first order for the Compact Reliq reliquefaction plant, a system designed to reliquefy boil-off gas (BOG) onboard gas carriers and LNG bunker vessels and keep the cargo cool under all operational conditions. Wärtsilä also received a major contract to supply and construct a plant for the production of CO₂-neutral liquid transport fuels, with a capacity of approximately 100,000 tons per year to be located in Cologne, Germany. The order book at the end of the year decreased by 31% to EUR 857 million (1,232) due to the shortage of scrubber orders.

Net sales decreased by 15% to EUR 808 million (952) compared to the previous year. Service net sales increased by 8% to EUR 219 million (202), while equipment net sales decreased by 22% to EUR 588 million (750). The comparable operating result amounted to EUR 83 million (60) or 10.3% of net sales (6.3). The operating result for the comparison period was weakened by charges for cost overruns in certain gas solution projects.

Wärtsilä Voyage

Voyage's order intake in 2020 decreased by 16% to EUR 262 million (310) compared to the previous year. Book-to-bill was 1.06 (1.11). Service order intake decreased by 22% to EUR 92 million (117), while equipment order intake decreased by 12% to EUR 170 million (193). While COVID-19 put pressure on orders received from the cruise industry, order intake for fleet optimisation solutions developed well and Wärtsilä also received contracts for major newbuild projects in other segments. Highlights of the year included a contract with UltraShip Denmark to install the cloud-based Wärtsilä Fleet Operations Solution (FOS) across their entire fleet in a move that will enable direct and real-time connection between shore and vessel systems for collaborative voyage planning and execution. The order book at the end of the year was stable at EUR 275 million (274).

Net sales decreased by 12% to EUR 248 million (280) compared to the previous year. The decline was primarily due to the COVID-19 pandemic, which has resulted in project postponements and lower transactional service business. Service net sales decreased by 18% to EUR 85 million (103), while equipment net sales decreased by 8% to EUR 163 million (177). The comparable operating result amounted to EUR -41 million (-31) or -16.5% of net sales (-11.2). The result was negatively impacted by lower sales volumes and a less favourable service mix. In addition, investments in digital competences have been increased to further accelerate the execution of Wärtsilä's Smart Marine strategy. In both the reporting and the comparison period, the operating result was burdened by amortisation resulting from various acquisitions.

Wärtsilä Energy

Energy's order intake in 2020 decreased by 7% to EUR 1,653 million (1,769) compared to the previous year. Book-to-bill was 1.02 (0.99). Service order intake decreased by 9% to EUR 840 million (920), while equipment order intake decreased by 4% to EUR 813 million (849). Demand for equipment was evenly split across geographical areas. Noteworthy equipment orders received during the year included a 200 MW flexible baseload plant in South America to support the integration of renewables. Activity in the energy storage market was resilient, with orders including a 90 MW/90 MWh storage system to provide flexibility and grid stability in South East Asia, an order for a 123 MW/185 MWh storage system to support a major renewable project in the USA, as well as the first-ever GridSolv Quantum storage system in the USA. Received service orders included a 5-year maintenance agreement to support the availability, performance, and reliability of a 200 MW power plant in Cambodia, as well as a gas conversion project in Brazil along with a related 10-year operations and maintenance agreement renewal. The order book at the end of the year decreased by 9% to EUR 1,830 million (2,014).

Net sales decreased by 9% to EUR 1,620 million (1,779) compared to the previous year. Service net sales decreased by 2% to EUR 782 million (802), while equipment net sales decreased by 14% to EUR 838 million (977). The comparable operating result amounted to EUR 101 million (155) or 6.3% of net sales (8.7). The result was burdened by COVID-19 impacts in the form of delivery delays, weaker absorption of fixed costs, and increased costs for project execution, as well as by the delivery of projects communicated in 2019 to be affected by cost overruns.

Other business activities

Wärtsilä Portfolio Business

Portfolio Business' order intake in 2020 decreased by 32% to EUR 168 million (248) compared to the previous year. Activity was the highest in American Hydro, where orders received during the year included a contract to perform rehabilitation services and to complete the upgrade and refurbishment of two units at the Keokuk hydroelectric plant in Iowa, USA. Water & Waste and Entertainment Systems continued to work closely with the Italian shipbuilder Fincantieri for a number of ships, resulting in orders for complete waste treatment systems and fresh water generators for two vessels, as well as entertainment systems for two new series of ships comprising eight vessels. The order book at the end of the year decreased by 24% to EUR 257 million (338).

Net sales decreased by 24% to EUR 181 million (236) compared to the previous year. COVID-19 lowered activity, particularly in the Water & Waste and Entertainment Systems business units, where especially the cruise segment was heavily affected. The comparable operating result amounted to EUR -6 million (0) or -3.1% of net sales (0.1). Items affecting comparability amounting to EUR 24 million were recognised during the year largely as a result of the divestments of Wärtsilä JOVYATLAS GmbH and Wärtsilä Valves Ltd.

[BOARD OF DIRECTORS' REPORT >](#)
[FIVE YEARS IN FIGURES](#)
[QUARTERLY FIGURES](#)
[CALCULATIONS OF FINANCIAL RATIOS](#)
[FINANCIAL STATEMENTS](#)
[Consolidated financial statements](#)
[Consolidated statement of income](#)
[Consolidated statement of comprehensive income](#)
[Consolidated statement of financial position](#)
[Consolidated statement of cash flows](#)
[Consolidated statement of changes in equity](#)
[Notes to the consolidated financial statements \(IFRS\)](#)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

[Parent company financial statements](#)
[AUDITOR'S REPORT](#)
[WÄRTSILÄ IN THE CAPITAL MARKETS](#)
[INFORMATION FOR SHAREHOLDERS](#)

Divestments

In September, Wärtsilä announced the divestment of 100% of the shares in Wärtsilä JOVYATLAS GmbH to Jacob Waitz Industrie GmbH, a German based industry holding. The Wärtsilä JOVYATLAS offering consists of UPS systems, rectifiers, power inverters, frequency transformers, and resistors with related services. The company, which became part of Wärtsilä as a result of the acquisition of L-3 Communications MSI in 2015, is located in Jemgum in Germany and currently has some 125 employees. In 2019, its annual revenues were EUR 20 million. The divestment is driving Wärtsilä's focus on creating a stronger and simpler core business.

In October, Wärtsilä announced the divestment of 100% of the shares in Wärtsilä Valves Ltd to an affiliate of Evergreen Capital L.P., based in New York, USA. Its activities include engineering, assembly, testing, sales, and delivery of nickel aluminium bronze (NAB) and duplex valves for the marine, oil and gas, and energy markets. Additionally, it offers applications for Valves' products, including FPSO, petrochemical facilities, power generation, LNG, naval marine, marine services, waste water treatment plants, and pipelines. Wärtsilä Valves became part of Wärtsilä as a result of the Hamworthy acquisition in 2012. The company is located in Brough, UK and currently has approximately 65 employees. The annual revenues were approximately EUR 15 million in 2019.

In December, Wärtsilä closed the divestment of Wärtsilä ELAC Nautik GmbH (ELAC Nautik) to Cohort plc, a UK listed company, specialising in defence, security and related market sectors. ELAC Nautik became part of Wärtsilä as a result of the acquisition of L-3 Communications MSI in 2015. Its main market focus is on hydroacoustic products, including sonars, underwater communication and echo systems for small and medium sized military submarines. The company is located in Kiel, Germany and employs 125 people. The annual revenues were approximately EUR 20 million in 2019.

Risks and business uncertainties

The COVID-19 pandemic and the measures taken to contain its spread represent the main short-term risk to business operations and the demand environment, impacting global energy consumption, seaborne trade, as well as consumer confidence in cruise and ferry transportation. Mobility restrictions continue to affect business activities, project delivery schedules, and the ability to perform service activities. Disruptions to global supply chains resulting from new waves of COVID-19 infections are a risk for both factory activity and the delivery of spare parts and services. Although vaccinations against COVID-19 have started in many countries, there is still significant uncertainty over the duration of the pandemic and how quickly country level vaccination programmes will be implemented on a global scale.

In the marine markets, the risk of a prolonged period of weak demand affects the investment decisions of shipowners and operators, who are forced to re-evaluate their strategies related to both vessel newbuilding and existing fleets, and to cut capital and operational expenditures. The prevailing market conditions may result in continued price pressure and an elevated risk of order cancellations or slippage. Surplus capacity can drive further consolidation among shipyards, ship owners, and operators in certain segments, which may result in lower capture rates in services and equipment sales due to changed customer relationships. Extensions of no-sail orders, the limited ability or desire of people to travel, and the escalation of COVID-19 cases are a risk for recovery in the cruise and ferry markets. In the offshore industry, crude oil price volatility is pushing the oil majors to reduce their spending, exploration activity, and operational costs, leading to an increasing number of laid-up drilling units and support vessels. The average price spread between high- and low-sulphur fuels is projected to remain narrow in the near term, negatively impacting the scrubber investment case for both the existing fleet and newbuilds. At the same time, the low oil price is widening the price differential between

existing fuels and green alternatives. This, combined with the market challenges shipowners are facing, further raises the importance of a clear and foreseeable development of the regulatory environment as a fundamental condition to the decarbonisation of shipping.

In the energy markets, the slowdown in economic activity, currency fluctuations, and potential financing constraints are likely to postpone investment decisions on new power generation capacity. The energy transition may temporarily slow down, as the focus is on containing the virus spread and mitigating its impacts. Agreed and proposed stimulus packages to accelerate renewable energy investments still include uncertainties about the allocation of funding. However, once stimulus measures are executed, the need for flexibility in power systems will be emphasised. Changes in climate policies and regulations cause uncertainty in the markets, as they may impact customers' technology choices. Geopolitical tensions and trade barrier implications are also notable challenges to the demand environment. Price pressure resulting from the prevailing competitive environment remains a risk.

The Group is a defendant in a number of legal cases that have arisen out of, or are incidental to, the ordinary course of its business. These lawsuits mainly concern issues such as contractual and other liability, labour relations, property damage, and regulatory matters. From time to time, the Group receives claims of different amounts and with varying degrees of substantiation. There is currently one unusually sizeable claim. It is the Group's policy to provide for amounts related to the claims as well as for litigation and arbitration matters when an unfavourable outcome is probable and the amount of loss can be reasonably estimated.

The [Risks and risk management section](#) of the annual report contains a more detailed description of Wärtsilä's risks and risk management.

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Shares and shareholders

In 2020, the number of shares traded on Nasdaq Helsinki was 635,449,872, equivalent to a turnover of EUR 4,865 million. Wärtsilä's shares are also traded on alternative exchanges, such as Turquoise, BATS CXE, and BATS BXE. The total trading volume on these alternative exchanges was 199,394,959 shares.

Wärtsilä shares on Nasdaq Helsinki

31.12.2020	Number of shares and votes	Number of shares traded 1-12/2020
WRT1V	591,723,390	635,449,872

1.1.-31.12.2020	High	Low	Average*	Close
Share price	12.00	5.01	7.66	8.15

*Trade-weighted average price

Market capitalisation	31.12.2020	31.12.2019
MEUR	4,823	5,828

Foreign shareholders	31.12.2020	31.12.2019
%	50.7	52.8

BOARD OF DIRECTORS' REPORT >

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Flagging notifications

Wärtsilä was informed of the following changes in ownership during 2020:

Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
24.3.2020	BlackRock, Inc.	Above 5%	4.85	5.11
31.3.2020	BlackRock, Inc.	Below 5%	4.30	4.82
1.4.2020	BlackRock, Inc.	Above 5%	4.48	5.00
2.4.2020	BlackRock, Inc.	Below 5%	4.37	4.94
25.5.2020	BlackRock, Inc.	Above 5%	4.48	5.00
26.5.2020	BlackRock, Inc.	Below 5%	Below 5%	Below 5%
18.6.2020	BlackRock, Inc.	Above 5%	4.69	5.13
15.7.2020	BlackRock, Inc.	Above 5%	5.02	5.80
23.7.2020	BlackRock, Inc.	Below 5%	4.88	5.33
24.7.2020	BlackRock, Inc.	Above 5%	5.12	5.54
27.7.2020	BlackRock, Inc.	Below 5%	4.98	5.44
28.7.2020	BlackRock, Inc.	Above 5%	5.01	5.47
29.7.2020	BlackRock, Inc.	Below 5%	4.95	5.40
31.7.2020	BlackRock, Inc.	Above 5%	5.04	5.48
5.8.2020	BlackRock, Inc.	Below 5%	4.99	5.43
6.8.2020	BlackRock, Inc.	Above 5%	5.08	5.47
11.8.2020	BlackRock, Inc.	Below 5%	4.96	5.31
11.9.2020	BlackRock, Inc.	Above 5%	5.03	5.58
18.9.2020	BlackRock, Inc.	Below 5%	4.78	5.57
21.10.2020	BlackRock, Inc.	Below 5%	Below 5%	Below 5%
14.12.2020	BlackRock, Inc.	Above 5%	4.89	5.00
15.12.2020	BlackRock, Inc.	Below 5%	Below 5%	Below 5%

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting, held on 5 March 2020, approved the financial statements and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2019.

The Annual General Meeting decided that the Board of Directors shall have eight members. The following were elected to the Board: Maarit Aarni-Sirviö, Karen Bomba, Karin Falk, Johan Forssell, Tom Johnstone, Risto Murto, Mats Rahmström and Markus Rauramo.

The audit firm PricewaterhouseCoopers Oy was elected as the company's auditor for the year 2020.

Dividend distribution

The Annual General Meeting approved the Board of Directors' proposal to pay a dividend of EUR 0.48 per share in two instalments. The first instalment of EUR 0.24 per share was paid on 16 March 2020 and the second instalment of EUR 0.24 per share on 17 September 2020.

Shareholders' Nomination Board

The Annual General Meeting decided to establish a Shareholders' Nomination Board to prepare matters pertaining to the appointment and remuneration of the Board of Directors. It also adopted the proposed Charter of the Shareholders' Nomination Board. The Charter is available on Wärtsilä Corporation's website.

The Nomination Board consists of five members. Four representatives are nominated by the company's four largest shareholders, with the fifth member being the Chairman of Wärtsilä's Board of Directors. The four largest shareholders are determined on the basis of the shareholders' register maintained by Euroclear Finland Oy as of 1 June preceding the Annual General Meeting of shareholders.

[BOARD OF DIRECTORS' REPORT >](#)
[FIVE YEARS IN FIGURES](#)
[QUARTERLY FIGURES](#)
[CALCULATIONS OF FINANCIAL RATIOS](#)
[FINANCIAL STATEMENTS](#)
[Consolidated financial statements](#)
[Consolidated statement of income](#)
[Consolidated statement of comprehensive income](#)
[Consolidated statement of financial position](#)
[Consolidated statement of cash flows](#)
[Consolidated statement of changes in equity](#)
[Notes to the consolidated financial statements \(IFRS\)](#)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

[Parent company financial statements](#)
[AUDITOR'S REPORT](#)
[WÄRTSILÄ IN THE CAPITAL MARKETS](#)
[INFORMATION FOR SHAREHOLDERS](#)

The following members were appointed to Wärtsilä's Shareholders' Nomination Board:

- Petra Hedengran (General Counsel, Investor AB), appointed by Invaw Invest AB
- Reima Rytsölä (Deputy CEO, Investments, Varma Mutual Pension Insurance Company), appointed by Varma Mutual Pension Insurance Company
- Mikko Mursula (Deputy CEO, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company), appointed by Ilmarinen Mutual Pension Insurance Company
- Satu Huber (CEO, Elo Mutual Pension Insurance Company), appointed by Elo Mutual Pension Insurance Company
- Tom Johnstone (Chairman of the Board of Directors of Wärtsilä)

Authorisation to repurchase the company's own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 57,000,000 of the company's own shares. The authorisation to repurchase the company's own shares shall be valid until the close of the next Annual General Meeting, however no longer than for 18 months from the authorisation of the shareholders' meeting.

Authorisation to issue shares

The Board of Directors was authorised to resolve to issue new shares or transfer shares held by the company. The maximum number of shares to be so issued shall not exceed 57,000,000. The shares can be issued for consideration or without consideration. They can also be issued in deviation from the shareholders' pre-emptive rights by way of a directed issue if there is a weighty financial reason for the company to do so. The authorisation for the Board of Directors to issue shares shall be valid for three years from the authorisation of the shareholders' meeting and it cancels the authorisation given by the General Meeting on 7 March 2019 to distribute the company's own shares.

Organisation of the Board of Directors

Convening after the Annual General Meeting, the Board of Directors elected Tom Johnstone as its chairman and Markus

Rauramo as the deputy chairman. The Board decided to establish an Audit Committee and a People Committee. The Board appointed from among its members the following members to the Committees:

Audit Committee: Chair Markus Rauramo, Maarit Aarni-Sirviö, Risto Murto

People Committee: Chair Maarit Aarni-Sirviö, Johan Forssell, Tom Johnstone

WÄRTSILÄ'S PROSPECTS FOR 2021

Wärtsilä expects the near-term demand environment to be similar to that of the corresponding period in the previous year. However, visibility remains limited, and the prevailing market conditions make the outlook uncertain.

BOARD OF DIRECTORS' DIVIDEND PROPOSAL

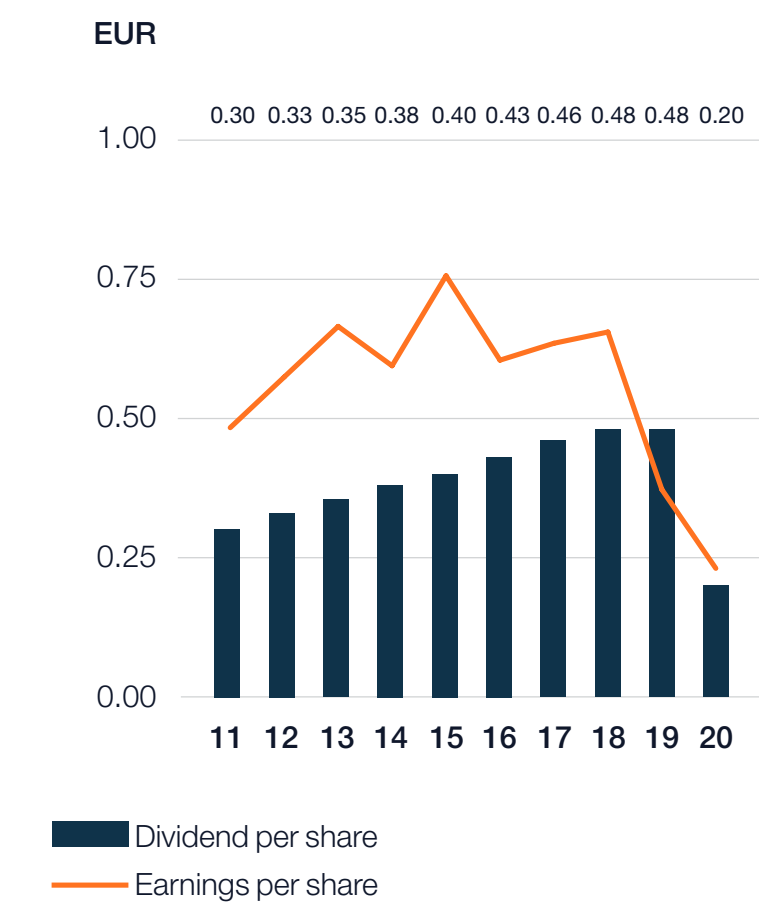
The Board of Directors proposes that a dividend of EUR 0.20 per share be paid for the financial year 2020. The parent company's distributable funds total EUR 974,008,736.28, which includes EUR 264,838,387.72 in net profit for the year. There are 591,723,390 shares with dividend rights. The dividend shall be paid in two instalments.

The first instalment of EUR 0.10 per share shall be paid to the shareholders who are registered in the list of shareholders maintained by Euroclear Finland Oy on the dividend record date of 8 March 2021. The payment day proposed by the Board for this instalment is 15 March 2021.

The second instalment of EUR 0.10 per share shall be paid in September 2021. The second instalment of the dividend shall be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Oy on the dividend record day, which, together with the payment day, shall be decided by the Board of Directors in its meeting scheduled for 9 September 2021. The dividend record day for the second instalment as per the current rules of the Finnish

book-entry system would be 13 September 2021 and the dividend payment day 20 September 2021.

Dividend



The free share issue approved by Wärtsilä Corporation's Annual General Meeting on 8 March 2018 increased the total number of Wärtsilä shares to 591,723,390. Figures for the comparison periods 2011–2017 have been adjusted to reflect the increased number of shares.

EVENTS AFTER THE REVIEW PERIOD

In January 2021, Wärtsilä announced the divestment of 100% of the shares in its Entertainment business, Wärtsilä Funa GmbH, to Videlio SA, a French public limited company. Wärtsilä Entertainment is engaged in the field of design, fabrication, engineering and integration of entertainment systems, illumination, light control, cabin control, broadcast and digital audio distribution and announcement systems for cruise vessels and entertainment parks. The company became part of Wärtsilä as a result of the acquisition of L-3 Communications MSI in 2015 and has 172 employees in five countries, with the majority being based in Emden, Germany. The annual revenues were approximately EUR 50 million in 2020.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES >

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

FIVE YEARS IN FIGURES

Wärtsilä provides certain financial performance measures, which are accounting measures that are not defined by IFRS. These alternative performance measures, such as comparable operating result, comparable adjusted EBITA, cash flow from operating activities, and gearing, are followed and used

by management to measure the Group's performance and financial position. In addition, Wärtsilä's targets of financial performance are linked to for example comparable operating result and gearing. Thus, these alternative performance measures provide useful information to the capital markets.

The alternative performance measures should not be evaluated in isolation from the corresponding IFRS measures. The alternative performance measure calculation definitions are disclosed in Calculations of financial ratios.

MEUR		2020	2019	2018	Restated	
					2017*	2016
Net sales		4,604	5,170	5,174	4,911	4,801
of which outside Finland	%	97.9	98.5	98.9	97.7	97.5
Exports from Finland		1,702	1,933	2,145	1,953	1,804
Personnel on average		18,307	19,110	18,899	17,866	18,332
of which in Finland		3,706	3,868	3,766	3,521	3,482
Order book		5,057	5,878	6,166	5,100	4,696
From the consolidated statement of income						
Depreciation, amortisation and impairment		174	180	130	134	138
Share of result of associates and joint ventures		3	-9	13	13	14
Comparable operating result		275	457	577	576	583
as a percentage of net sales	%	6.0	8.8	11.2	11.7	12.1
Operating result		234	362	543	538	532
as a percentage of net sales	%	5.1	7.0	10.5	11.0	11.1
Comparable adjusted EBITA		308	498	621	612	618
as a percentage of net sales	%	6.7	9.6	12.0	12.5	12.9
Financial income and expenses		-43	-47	-40	-47	-53
Profit before taxes		191	315	502	491	479
as a percentage of net sales	%	4.2	6.1	9.7	10.0	10.0
Profit for the financial period		133	218	386	375	357
as a percentage of net sales	%	2.9	4.2	7.5	7.6	7.4
From the consolidated statement of financial position						
Non-current assets		2,427	2,518	2,369	2,285	2,116
Current assets		3,706	3,797	3,690	3,363	3,275
Assets held for sale		99	82	-	-	-

BOARD OF DIRECTORS' REPORT
FIVE YEARS IN FIGURES >
QUARTERLY FIGURES
CALCULATIONS OF FINANCIAL RATIOS
FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT
WÄRTSILÄ IN THE CAPITAL MARKETS
INFORMATION FOR SHAREHOLDERS

MEUR		2020	2019	2018	Restated	
					2017*	2016
Total equity attributable to equity holders of the parent company		2,177	2,396	2,418	2,352	2,288
Non-controlling interests		11	14	14	24	34
Interest-bearing debt		1,327	1,096	823	619	629
Non-interest-bearing liabilities		2,648	2,824	2,804	2,653	2,441
Liabilities directly attributable to assets held for sale		68	68	-	-	-
Total equity and liabilities		6,232	6,398	6,059	5,648	5,391
From the consolidated statement of cash flows						
Cash flow from operating activities		681	232	470	430	613
Cash flow from investing activities		-55	-95	-240	-235	-126
Cash flow from financing activities		-44	-256	-118	-278	-339
Gross capital expenditure		117	122	306	255	146
as a percentage of net sales	%	2.5	2.4	5.9	5.2	3.0
Research and development expenditure		153	164	165	141	131
as a percentage of net sales	%	3.3	3.2	3.2	2.9	2.7
Dividends paid		118**	284	284	272	256
Financial ratios						
Earnings per share (EPS), basic and diluted***	EUR	0.23	0.37	0.65	0.63	0.60
Dividend per share***	EUR	0.20**	0.48	0.48	0.46	0.43
Dividend per earnings	%	88.2**	130.8	73.7	70.8	72.8
Interest coverage		7.1	7.7	10.8	11.8	18.6
Return on investment (ROI)	%	7.1	11.5	18.1	18.5	17.1
Return on equity (ROE)	%	5.8	9.0	16.1	16.0	15.6
Solvency ratio	%	38.1	40.8	44.4	46.3	47.6
Gearing		0.18	0.30	0.14	0.10	0.07
Equity per share***	EUR	3.68	4.05	4.09	3.97	3.87
Working capital (WCAP)	EUR	257	732	581	563	490

The financial ratios include assets and liabilities pertaining to assets held for sale.

* Figures in the comparison period 2017 have been restated due to the adoption of IFRS 15.

** Proposal of the Board of Directors.

*** Share issue without payment (share split) approved by Wärtsilä Corporation's Annual General Meeting on 8 March 2018 increased the total number of Wärtsilä shares to 591,723,390. Figures in the comparison periods have been restated accordingly.

BOARD OF DIRECTORS' REPORT
FIVE YEARS IN FIGURES
QUARTERLY FIGURES >
CALCULATIONS OF FINANCIAL RATIOS
FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT
WÄRTSILÄ IN THE CAPITAL MARKETS
INFORMATION FOR SHAREHOLDERS

QUARTERLY FIGURES

MEUR	10-12/2020	7-9/2020	4-6/2020	1-3/2020	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018
Order intake									
Marine Power*	440	410	391	496	656	449	632	509	
Marine Systems*	133	174	119	113	147	150	198	258	
Voyage*	55	44	56	107	93	69	72	76	
Wärtsilä Marine Business*									1,031
Energy*	469	319	390	475	585	260	435	489	843
Portfolio Business*	21	34	55	57	74	51	40	83	
Total	1,118	981	1,011	1,247	1,555	979	1,377	1,416	1,874
Order book at the end of the financial period**									
Marine Power*	1,839	1,908	1,913	1,967	2,019	1,981	1,976	1,800	
Marine Systems*	857	872	902	1,051	1,232	1,377	1,471	1,516	
Voyage*	275	289	305	304	274	265	252	257	
Wärtsilä Marine Business*									3,651
Energy*	1,830	1,865	1,939	2,087	2,014	2,023	2,120	2,043	2,515
Portfolio Business*	257	331	341	336	338	336	338	361	
Total	5,057	5,265	5,401	5,745	5,878	5,982	6,157	5,977	6,166
Net sales									
Marine Power*	489	382	420	457	603	430	447	443	
Marine Systems*	167	169	238	234	279	244	237	192	
Voyage*	68	54	56	69	82	60	73	65	
Wärtsilä Marine Business*									831
Energy*	465	347	457	351	648	328	400	403	701
Portfolio Business*	30	43	48	59	71	56	60	49	
Total	1,220	995	1,220	1,170	1,684	1,118	1,217	1,151	1,532
Share of result of associates and joint ventures			1	1	-2	-6	-1		3
Comparable adjusted EBITA	111	69	63	65	213	49	123	113	237
as a percentage of net sales	9.1	7.0	5.2	5.6	12.6	4.4	10.1	9.8	15.4

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES >

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

MEUR	10-12/2020	7-9/2020	4-6/2020	1-3/2020	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018
Depreciation, amortisation and impairment	-49	-47	-38	-39	-39	-58	-42	-41	-37
Purchase price allocation amortisation	-8	-8	-8	-9	-10	-10	-10	-11	-11
Comparable operating result	103	61	55	56	202	39	113	102	226
as a percentage of net sales	8.4	6.1	4.5	4.8	12.0	3.5	9.3	8.9	14.7
Items affecting comparability, total	-13	-18	-6	-4	-39	-28	-17	-11	-20
Operating result	90	43	49	52	164	11	96	91	206
as a percentage of net sales	7.4	4.3	4.0	4.5	9.7	1.0	7.9	7.9	13.4
Financial income and expenses	-12	-9	-13	-9	-11	-11	-13	-13	-12
Profit before taxes	78	34	36	43	153		83	78	194
Income taxes	-23	-9	-12	-14	-51	-5	-21	-19	-41
Profit for the financial period	55	25	23	29	102	-5	62	59	153
Earnings per share (EPS), basic and diluted, EUR	0.10	0.04	0.04	0.05	0.17	-0.01	0.11	0.10	0.25
Gross capital expenditure	38	25	27	27	44	24	32	23	48
Investments in securities and acquisitions	1	1			2		4		-1
Cash flow from operating activities	274	114	252	42	295	-61	-37	35	349
Working capital (WCAP) at the end of the financial period	257	431	492	660	732	870	784	656	581
Personnel at the end of the financial period***									
Marine Power*	8,355	8,412	8,674	8,934	8,820	8,962	9,005	8,881	
Marine Systems*	1,897	1,891	1,846	1,862	1,870	1,828	1,887	1,882	
Voyage*	1,915	1,946	1,917	1,939	1,889	1,875	1,849	1,852	
Wärtsilä Marine Business*									13,582
Energy*	4,888	4,837	4,799	4,819	5,137	5,295	5,449	5,513	5,712
Portfolio Business*	737	1,097	1,098	1,088	1,080	1,058	1,050	1,096	
Total	17,792	18,183	18,334	18,642	18,795	19,018	19,239	19,225	19,294

* The segment related comparison figures for 2018 have been restated to reflect the organisational structure, which was in place during 2019. The segment related comparison figures for 2019 and 1-3/2020 have been restated to reflect the new organisational structure effective as of 1 July 2020.

** During 2019, Wärtsilä implemented stricter requirements for the booking of new orders, which resulted in certain projects being removed from the Energy business' order book. The order book for the first three quarters of 2019 has been adjusted to reflect this change.

*** Comparison figures have been adjusted to reflect the business unit composition of the Portfolio Business and a change in allocation principles.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS >

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

CALCULATIONS OF FINANCIAL RATIOS

Operating result

Net sales + other operating income – expenses – depreciation, amortisation and impairment +/- share of result of associates and joint ventures

Earnings per share (EPS), basic and diluted

Profit for the financial period attributable to equity holders of the parent company

Adjusted number of shares, average over the financial period

Items affecting comparability

Certain income and expenses are presented as items affecting comparability when they have significant impact on the consolidated statement of income. Items affecting comparability consist of income and expenses, which result from restructuring activities aiming to adjust the capacity of Wärtsilä's operations. They may also include other income and expenses incurred outside Wärtsilä's normal course of business, such as impairment charges, acquisition related costs, settlements recorded as a result of legal proceedings with third parties or unforeseen obligations from earlier discontinued businesses.

Comparable operating result

Operating result – items affecting comparability

Comparable adjusted EBITA

Operating result – items affecting comparability – purchase price allocation amortisation

Gross capital expenditure

Investments in securities and acquisitions + investments in intangible assets and property, plant and equipment

Net interest-bearing debt

Total of non-current and current interest-bearing debt + total of non-current and current lease liabilities – interest-bearing receivables – cash and cash equivalents

Equity per share

Equity attributable to equity holders of the parent company

Adjusted number of shares at the end of the financial period

Solvency ratio

Equity

x 100

Total equity and liabilities – advances received

Gearing

Interest-bearing liabilities – cash and cash equivalents

Equity

Return on investment (ROI)

Profit before taxes + interest and other financial expenses

x 100

Total equity and liabilities – non-interest-bearing liabilities – provisions, average over financial period

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS >

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Return on equity (ROE)

Profit for the financial period

$$\frac{\text{Profit for the financial period}}{\text{Equity, average over the financial period}} \times 100$$

Order intake

Total amount of orders received during the financial period to be delivered either during the current financial period or thereafter.

Order book

The presentation in value of orders that are placed by customers but not yet delivered. For service agreements, only the expected net sales for the next 24 months are included in the order book.

Working capital (WCAP)

(Inventories + trade receivables + current tax receivables + other non-interest-bearing receivables)
 – (trade payables + advances received + pension obligations + provisions + current tax liabilities + other non-interest-bearing liabilities – dividend payable)

Interest coverage

Profit before taxes + depreciation, amortisation and impairment
 + interest and other financial expenses

Interest and other financial expenses

Dividend per share

Dividends paid for the financial period

Adjusted number of shares at the end of the financial period

Dividend per earnings

Dividend per share

$$\frac{\text{Dividend per share}}{\text{Earnings per share (EPS), basic and diluted}} \times 100$$

Effective dividend yield

Dividend per share

$$\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the financial period}} \times 100$$

Price/earnings (P/E)

Adjusted share price at the end of the financial period

Earnings per share (EPS), basic and diluted

Price/carrying amount per share (P/BV)

Adjusted share price at the end of the financial period

Equity per share

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

[Consolidated statement of income](#)

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

MEUR	2020	2019	Note
Net sales	4,604	5,170	2.1., 2.2.
Change in inventories of finished goods & work in progress	-104	137	
Work performed by the Group and capitalised	19	18	
Other operating income	61	67	2.3.
Operating result	234	362	
as a percentage of net sales	5.1	7.0	
Material and services	-2,551	-3,003	2.4.
Employee benefit expenses	-1,192	-1,260	2.5.
Result from net position hedges	-1		
Depreciation, amortisation and impairment	-174	-180	3.5.
Other operating expenses	-431	-578	2.3.
Share of result of associates and joint ventures	3	-9	6.4.
Financial income	16	27	5.1.
Financial expenses	-59	-74	5.1.
Profit before taxes	191	315	
Income taxes	-58	-97	2.6.
Profit for the financial period	133	218	

Attributable to:			
equity holders of the parent company	134	217	2.7.
non-controlling interests	-1	1	
	133	218	
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share (EPS) basic and diluted EUR	0.23	0.37	2.7.

The notes are an integral part of these consolidated financial statements.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MEUR	2020	2019	Note
Profit for the financial period	133	218	
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income			
Remeasurements of defined benefit liabilities	6	-20	
Tax on items that will not be reclassified to the statement of income	-1	5	
Total items that will not be reclassified to the statement of income	5	-16	
Items that may be reclassified subsequently to the statement of income			
Exchange rate differences on translating foreign operations			
for equity holders of the parent company	-74	42	
for non-controlling interests	-1		
transferred to the statement of income	-6		
Associates and joint ventures, share of other comprehensive income	-2	-1	
Cash flow hedges			
measured at fair value	-3	4	5.5.
transferred to the statement of income	6	19	
Tax on items that may be reclassified to the statement of income			
Cash flow hedges			
transferred to the statement of income	-1	-4	
Total items that may be reclassified to the statement of income	-81	60	
Other comprehensive income for the financial period, net of taxes	-76	45	
Total comprehensive income for the financial period	57	263	

Total comprehensive income attributable to:		
equity holders of the parent company	59	262
non-controlling interests	-1	1
	57	263

The notes are an integral part of these consolidated financial statements.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MEUR	31.12.2020	31.12.2019	Note
Assets			
Non-current assets			
Goodwill	1,325	1,380	3.1.
Intangible assets	391	397	3.2.
Property, plant and equipment	282	307	3.3.
Right-of-use assets	162	185	3.4.
Investments in associates and joint ventures	23	42	6.4.
Other investments	19	18	5.2.
Interest-bearing investments	1	1	5.2.
Deferred tax assets	183	155	4.6.
Trade receivables	30	19	4.2., 5.2.
Other receivables	11	15	4.3.
Total non-current assets	2,427	2,518	
Current assets			
Inventories	1,192	1,365	4.1.
Trade receivables	922	1,237	4.2., 5.2.
Current tax receivables	27	42	
Contract assets	389	515	4.2.
Other receivables	258	281	4.3.
Cash and cash equivalents	919	358	5.3., 5.4.
Total current assets	3,706	3,797	
Assets held for sale	99	82	6.3.
Total assets	6,232	6,398	
Equity and liabilities			
Equity			
Share capital	336	336	5.5.
Share premium	61	61	5.5.
Translation differences	-197	-114	5.5.

Fair value reserve	-9	-11	5.5.
Remeasurements of defined benefit liabilities	-45	-55	4.7.
Retained earnings	2,030	2,178	
Total equity attributable to equity holders of the parent company	2,177	2,396	
Non-controlling interests	11	14	
Total equity	2,188	2,410	
Liabilities			
Non-current liabilities			
Interest-bearing debt	1,129	997	5.2., 5.4., 5.6.
Deferred tax liabilities	76	83	4.6.
Pension obligations	139	155	4.7.
Provisions	55	45	4.5.
Contract liabilities	51	38	4.2.
Other liabilities	1	1	3.4., 4.4.
Total non-current liabilities	1,451	1,317	
Current liabilities			
Interest-bearing debt	198	99	5.2., 5.4., 5.6.
Provisions	269	278	4.5.
Trade payables	411	624	4.4., 5.2., 5.6.
Current tax liabilities	56	100	
Contract liabilities	926	880	4.2.
Other liabilities	664	622	3.4., 4.4.
Total current liabilities	2,524	2,603	
Total liabilities	3,975	3,920	
Liabilities directly attributable to assets held for sale	68	68	6.3.
Total equity and liabilities	6,232	6,398	

The notes are an integral part of these consolidated financial statements.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

CONSOLIDATED STATEMENT OF CASH FLOWS

MEUR	2020	2019	Note
Cash flow from operating activities:			
Profit for the financial period	133	218	
Adjustments for:			
Depreciation, amortisation and impairment	174	180	3.5.
Financial income and expenses	43	47	5.1.
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-9	-15	
Share of result of associates and joint ventures	-3	9	6.4.
Income taxes	58	97	2.6.
Other non-cash flow adjustments	7	3	
Cash flow before changes in working capital	403	540	
Changes in working capital:			
Receivables, non-interest-bearing, increase (-) / decrease (+)	338	9	
Inventories, increase (-) / decrease (+)	122	-213	4.1.
Liabilities, non-interest-bearing, increase (+) / decrease (-)	-32	74	
Changes in working capital	428	-130	
Cash flow from operating activities before financial items and taxes	832	410	
Financial items and taxes:			
Interest income	4	4	
Interest expenses	-14	-13	
Other financial income and expenses	-19	-27	
Income taxes paid	-122	-141	
Financial items and paid taxes	-150	-178	
Cash flow from operating activities	681	232	
Cash flow from investing activities:			
Acquisitions	-1	-4	6.1.
Other investments	-1	-2	5.2.
Investments in property, plant and equipment and intangible assets	-115	-116	3.2.,3.3.

Proceeds from sale of property, plant and equipment and intangible assets	13	25	3.2., 3.3.
Proceeds from sale of shares in subsidiaries	22	1	6.2.
Proceeds from sale of shares in associates and joint ventures	27		6.4.
Cash flow from investing activities	-55	-95	
Cash flow after investing activities	627	137	
Cash flow from financing activities:			
Proceeds from non-current debt	317	150	
Repayments and other changes in non-current debt	-76	-105	5.6.
Loan receivables, increase (-) / decrease (+)	1	2	
Current loans, increase (+) / decrease (-)		-18	
Dividends paid	-286	-284	
Cash flow from financing activities	-44	-256	
Change in cash and cash equivalents, increase (+) / decrease (-)	582	-119	
Cash and cash equivalents at the beginning of the financial period*	369	487	
Exchange rate changes	-19		
Cash and cash equivalents at the end of the financial period*	932	369	

* Cash and cash equivalents on 31 December 2020 and 31 December 2019 include the cash and cash equivalents pertaining to assets held for sale.

The notes are an integral part of these consolidated financial statements.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MEUR	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 1 January 2019	336	61	-155	-31	-39	2,245	2,418	14	2,432
Translation differences			41				41		41
Cash flow hedges									
net change in fair value, net of taxes				4			4		4
transferred to the statement of income, net of taxes				16			16		16
Defined benefit plans					-16		-16		-16
Other comprehensive income			41	20	-16		45		45
Profit for the financial period						217	217	1	218
Total comprehensive income for the financial period			41	20	-16	217	262	1	263
Dividends paid						-284	-284	-1	-285
Equity on 31 December 2019	336	61	-114	-11	-55	2,178	2,396	14	2,410

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

MEUR	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 1 January 2020	336	61	-114	-11	-55	2,178	2,396	14	2,410
Translation differences			-76				-76	-1	-77
Translation differences, transferred to statement of income			-6				-6		-6
Cash flow hedges									
net change in fair value, net of taxes				-3			-3		-3
transferred to the statement of income, net of taxes				5			5		5
Defined benefit plans					5		5		5
Other changes					5	-5			
Other comprehensive income			-82	2	10	-5	-75	-1	-76
Profit for the financial period						134	134	-1	133
Total comprehensive income for the financial period			-82	2	10	129	59	-1	57
Dividends paid						-284	-284	-2	-286
Other changes						7	7		7
Equity on 31 December 2020	336	61	-197	-9	-45	2,030	2,177	11	2,188

Additional information on share capital, share premium, translation difference and fair value reserve is presented in Note 5.5. Equity.

The notes are an integral part of these consolidated financial statements.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements

2. Group financial performance

3. Intangible and tangible assets

4. Working capital and other balance sheet items

5. Capital structure and financial items

6. Group structure

7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

1.1. BASIC INFORMATION

Wärtsilä Corporation is a Finnish listed company organised under the laws of Finland and domiciled in Helsinki. The address of its registered office is Hiililaiturinkuja 2, 00180 Helsinki. Wärtsilä Corporation is the ultimate parent company in the Wärtsilä Group.

Wärtsilä is a global leader in smart technologies and complete lifecycle solutions for the marine and energy markets. By emphasising sustainable innovation, total efficiency and data analytics, Wärtsilä maximises the environmental and economic performance of the vessels and power plants of its customers.

In 2020, Wärtsilä's net sales totalled EUR 4.6 billion with approximately 18,000 employees. The company has operations in over 200 locations in more than 70 countries around the world. Wärtsilä is listed on Nasdaq Helsinki.

These consolidated financial statements were authorised for release by the Board of Directors of Wärtsilä Corporation on 27 January 2021, after which, in accordance with the Finnish Corporate Act, the shareholders have a right to approve or reject the financial statements in the Annual General Meeting. The Annual General Meeting also has the possibility to decide upon changes to the financial statements.

1.2. BASIS OF PREPARATION

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force on 31 December 2020. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedures stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation.



Operations in over
200 locations

in more than
70 countries

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements

2. Group financial performance

3. Intangible and tangible assets

4. Working capital and other balance sheet items

5. Capital structure and financial items

6. Group structure

7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

All intragroup transactions, dividend distributions, receivables and liabilities, as well as unrealised margins, are eliminated in the consolidated financial statements. In the consolidated statements of income and comprehensive income, non-controlling interests have been separated from the profit and the total comprehensive income for the financial period. In the consolidated statement of financial position, non-controlling interests are shown as a separate item under equity.

Reporting is based on the historical cost convention. Exceptions are the financial assets and liabilities at fair value through the statement of income, the assets and liabilities arising from pension plans, hedged items under fair value hedging, the cash- and share-settled share-based payment transactions which are measured at fair value, and assets held for sale which are measured at the lower of the carrying amount and the fair value less costs to sell. The figures are in millions of euros except Note 7.2. Related party disclosures, which is presented in thousands of euros.

1.3. NEW AND AMENDED IFRS STANDARDS

In 2020, the Group has adopted the following amended standards issued by the IASB.

Amendments to IFRS 3 Business Combinations (effective for financial periods beginning on or after 1 January 2020). The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments have no impact on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial periods beginning on or after 1 January 2020). The purpose of the amendments is to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments have no impact on the consolidated financial statements.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures (effective for financial periods beginning on or after 1 January 2020). These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the

effect that IBOR reform should not generally cause hedge accounting to terminate. Any hedge ineffectiveness should continue to be recognised in the statement of income. The amendments do not have a significant impact on the consolidated financial statements.

Amendment to IFRS 16 Leases Covid-19-Related Rent Concessions (effective for financial periods beginning on or after 1 June 2020). The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of the COVID-19 pandemic. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications when the criteria presented in the amendment are met. The amendment does not have a significant impact on the consolidated financial statements.

In 2021 or later, the Group will adopt the following new or amended standards issued by the IASB.

Amendments to IAS 1 Presentation of Financial Statements* (effective for financial periods beginning on or after 1 January 2022). The amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendments will have no impact on the consolidated financial statements.

Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets* (effective for financial periods beginning on or after 1 January 2022). The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments are intended to provide clarity and help to ensure consistent application of the standard. The amendments apply a directly related cost approach. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. Judgement will be required in determining which costs are directly related to contract activities. The amendments are not expected to have a significant impact on the consolidated financial statements.

Amendments to IAS 16: Property, Plant and Equipment* (effective for financial periods beginning on or after 1 January 2022). The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. The proceeds from selling such items and the costs of producing those items are recognised in the statement of income. The amendments will have no impact on the consolidated financial statements.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements

2. Group financial performance

3. Intangible and tangible assets

4. Working capital and other balance sheet items

5. Capital structure and financial items

6. Group structure

7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

IFRS 17 Insurance Contracts* (effective for financial periods beginning on or after 1 January 2023). IFRS 17 applies to all types of insurance contracts (direct insurance and re-insurance) regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective is to provide a consistent accounting model for insurance contracts. The impact is under review within the Group.

* Not yet endorsed for use by the European Union as of 31 December 2020

1.4. MANAGEMENT JUDGEMENT AND USE OF ESTIMATES

Preparation of the financial statements in accordance with the IFRS requires management to make judgements, estimates, and assumptions that affect the valuation of the reported assets and liabilities, as well as other information, such as contingent assets and liabilities and the recognition of income and expenses in the statement of income. Although these continuously evaluated judgements, estimates, and assumptions are based on management's past experience and best knowledge of current events and actions, as well as expectations of future events, actual results may differ from the estimates.

For Wärtsilä, the most significant judgements, estimates, and assumptions made by the management relate to the items listed below, more information can be found in the corresponding note:

- revenue recognition, especially project estimates for long-term projects and agreements (Note 2.2. Revenue recognition),
- uncertain tax positions (Note 2.6. Income taxes),
- impairment testing (Note 3.1. Goodwill),
- estimating useful lives and assessing indication of impairment (Notes 3.2. Other intangible assets and 3.3. Property, plant and equipment),
- determining the length of lease terms (Note 3.4. Leases),
- valuation of inventories (Note 4.1. Inventories),
- valuation of trade receivables (Note 4.2. Trade receivables and contract assets and liabilities),
- recognition of warranty provisions and provisions for legal cases (Note 4.5. Provisions),
- expected results on tax audits and deferred tax assets from tax losses (Note 4.6. Deferred taxes), and
- defined pension benefit obligations (Note 4.7. Pension obligations),

In addition, accounting for business combinations may require significant management judgement (Note 6.1. Acquisitions).

The COVID-19 pandemic has caused Wärtsilä to review the estimates and assumptions used in the preparation of the consolidated financial statements. The possible impact of the situation caused by the coronavirus pandemic on the relevant factors in each estimate have been considered. The impact of the COVID-19 pandemic on estimates in the financial reporting rely on management's best judgement.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. **Group financial performance**
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2. GROUP FINANCIAL PERFORMANCE

2.1. SEGMENT INFORMATION

From 1 January to 30 June 2020, Wärtsilä was organised into three business areas: Wärtsilä Marine Business, Wärtsilä Energy Business, and Portfolio Business. Wärtsilä Marine Business and Wärtsilä Energy Business constituted Wärtsilä's operating and reportable segments, while Portfolio Business was reported as other business activities.

Wärtsilä's new organisational structure became operational on 1 July 2020. In the new organisational structure, Wärtsilä Marine Power, Wärtsilä Marine Systems, Wärtsilä Voyage, and Wärtsilä Energy constitute the reportable segments of the Group, while Wärtsilä Portfolio Business continues to be reported as other business activities. The segments and other business activities cover both equipment sales and services for the respective business.

Wärtsilä's highest operative decision maker (CODM, Chief Operating Decision Maker) is the President and CEO, with the support of the Board of Management, and in some cases the Board of Directors.

Marine Power, Marine Systems, Voyage, Energy, and Portfolio Business are each led by their President. Discrete financial information for each business is provided to the CODM to support decision-making. The segment information presented by Wärtsilä reflects internal management reporting. Segment information is reported to the level of operating result, as items below operating result are not allocated to the businesses.

Internal sales between segments and other business activities are not reported in management reporting, but revenue and costs of sales are booked directly to the respective customer projects and orders. The main factors affecting the allocation of indirect and administration costs to the segments and other business activities are net sales and the number of personnel. Management considers these allocation principles to be the most suitable means for reflecting the costs carried by each segment and other business activities. The allocation principles are reviewed regularly.

The aim of Wärtsilä is to lead the industry's transformation towards a Smart Marine Ecosystem. Building on the sound foundation of being a leading provider of innovative products, integrated solutions, and lifecycle services to the marine and oil & gas industries, Wärtsilä aims to unlock new customer values through connectivity, digitalisation, and smart technology.



Net sales EUR

4.6 billion

Operates in four segments

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. **Group financial performance**
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Wärtsilä's marine customer base covers all the main vessel segments, including traditional merchant vessels, gas carriers, cruise & ferry, navy, and special vessels. In the oil & gas industry, Wärtsilä is active in serving offshore installations and related industry vessels, as well as land-based gas installations. Wärtsilä's customers comprise ship owners, shipyards, and ship management companies.

Energy leads the transition towards a 100% renewable energy future. Wärtsilä helps its customers unlock the value of the energy transition by optimising their energy systems and future-proofing their assets.

Wärtsilä Marine Power

Marine Power focuses on Wärtsilä's comprehensive range of engine and propulsion solutions. Its offering, which includes engines, generating sets, gearboxes, propulsion equipment, as well as LNG fuel handling, power management, and NOx reduction technologies, positions Marine Power as a leading partner for its customers in the decarbonisation of the maritime industry, particularly through fuel flexibility and hybrid solutions.

Marine Power has six business units: Power Supply, Propulsion, Parts, Performance, Projects, and Field Services & Workshops. The Marine Power setup has been specifically designed to support its customers throughout the entire lifecycle of their vessels: from designing, developing, and delivering high quality products and solutions that ensure superior performance and that are capable of meeting evolving environmental requirements, to assisting customers with a wide service network supplying spare parts, competent field service personnel, and product and solution upgrades, as well as reducing operational risk.

Wärtsilä Marine Systems

Marine Systems consists of four end-to-end business units: Exhaust Treatment, Gas Solutions, Marine Electrical Systems, and Shaft Line Solutions.

Exhaust Treatment focuses on developing the exhaust gas cleaning business. Wärtsilä's exhaust gas cleaning technology is an economical and environmentally friendly solution for addressing all existing and anticipated rules and regulations. Wärtsilä scrubber systems are designed to provide flexibility and reliable operations wherever customers operate.

Gas Solutions is the leading technology and service provider for the gas value chain, with a broad range of products covering cargo handling systems for gas carriers, liquefaction and gasification systems for various applications, fuel systems for alternative engine configurations and fuels, and renewable gas systems with solutions for biogas upgrading and liquefaction.

Marine Electrical Systems offers comprehensive electrical turnkey solutions to selected niche segments, such as navy and super yachts, assuming responsibility for the entire project from basic design to commissioning.

Shaft Line Solutions (formerly Seals & Bearings) comprises all capabilities required to provide complete integrated shaft line solutions from its global factories and service locations to customers in its core market segments, namely navy, merchant, and cruise.

Wärtsilä Voyage

Voyage helps transform the way vessels perform their voyage by leveraging the latest digital technologies to deliver a step-change in safety, efficiency, reliability, and emissions. By combining bridge systems, cloud data management, data services, decision support tools, and access to real-time information, Voyage collaborates in creating the digital ecosystem of the future. Voyage has one of the largest installed bases and offerings of navigation, automation, simulation, and training solutions, and ship traffic control solutions.

Serving the key market segments across cruise, ferry, merchant, navy, and non-vessel related segments, such as port authorities and maritime institutes, Voyage is active in both the newbuild and existing vessel markets. Voyage executes a growth strategy based on innovative product development, system integration, connectivity, remote operations, and cyber security, in line with the development of a Smart Marine Ecosystem.

Wärtsilä Energy

Wärtsilä's offering comprises flexible power plants, energy management and storage systems, as well as lifecycle services that enable increased efficiency and guaranteed performance.

Wärtsilä's three main customer segments in the energy markets are utilities, independent power producers, and industrial customers. Wärtsilä's energy solutions are used for a wide variety of applications. These include baseload generation, capacity for grid stability, peaking and load-following generation, and for the integration of wind and solar power. Wärtsilä provides its customers with a comprehensive understanding of energy systems, including fully integrated assets and software, complete with value adding lifecycle services.

Wärtsilä Portfolio Business

Wärtsilä reports Portfolio Business as other business activities.

Portfolio Business consists of multiple business units, which are run independently with the aim of accelerating performance improvement and unlocking value through divestments

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements

2. Group financial performance

3. Intangible and tangible assets

4. Working capital and other balance sheet items

5. Capital structure and financial items

6. Group structure

7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

or other strategic alternatives. The business units included in Portfolio Business comprise Entertainment Systems, Special Products covering power converter products and UPS systems, Tank Control Systems, Water & Waste, as well as American Hydro, the hydropower solutions and turbine services business.

Until 30 September 2020, Portfolio Business also included Wärtsilä JOVYATLAS GmbH and Wärtsilä Valves Ltd. On 1 October, Wärtsilä divested 100% of the shares of Wärtsilä JOVYATLAS and 100% of the shares of Wärtsilä Valves.

Portfolio Business also included Wärtsilä ELAC Nautik GmbH until the divestment of shares, which was finalised on 2 December 2020.

The comparison figures for the segment reporting and service information have been restated to reflect the new reporting structure.

MEUR	2020	2019
Net sales		
Marine Power	1,748	1,923
Marine Systems	808	952
Voyage	248	280
Energy	1,620	1,779
Portfolio Business	181	236
Total	4,604	5,170
Depreciation, amortisation and impairment		
Marine Power	-68	-88
Marine Systems	-20	-23
Voyage	-27	-26
Energy	-32	-31
Portfolio Business	-28	-11
Total	-174	-180
Share of result of associates and joint ventures		
Marine Power	2	-9
Total	3	-9

Operating result		
Marine Power	134	221
Marine Systems	81	53
Voyage	-42	-37
Energy	91	131
Portfolio Business	-29	-7
Total	234	362

Operating result as a percentage of net sales (%)		
Marine Power	7.7	11.5
Marine Systems	10.0	5.6
Voyage	-17.0	-13.3
Energy	5.6	7.4
Portfolio Business	-16.2	-2.8
Total	5.1	7.0

Comparable operating result		
Marine Power	137	273
Marine Systems	83	60
Voyage	-41	-31
Energy	101	155
Portfolio Business	-6	
Total	275	457

Comparable operating result as a percentage of net sales (%)		
Marine Power	7.8	14.2
Marine Systems	10.3	6.3
Voyage	-16.5	-11.2
Energy	6.3	8.7
Portfolio Business	-3.1	0.1
Total	6.0	8.8

Alternative performance measures

Wärtsilä provides certain financial performance measures, which are not defined by IFRS. These alternative performance measures are followed and used by management to measure the Group's performance and financial position, and also provide useful information to the capital markets.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements

2. **Group financial performance**

3. Intangible and tangible assets

4. Working capital and other balance sheet items

5. Capital structure and financial items

6. Group structure

7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

The alternative performance measures should not be evaluated in isolation from the corresponding IFRS measures. The alternative performance measure calculation definitions are disclosed in Calculations of financial ratios.

Wärtsilä discloses certain comparable performance measures to enhance comparability between periods. Certain income and expenses are presented as items affecting comparability when they have significant impact on the consolidated statement of income. Items affecting comparability consist of income and expenses, which result from restructuring activities aiming to adjust the capacity of Wärtsilä's operations. They may also include other income and expenses incurred outside Wärtsilä's normal course of business, such as impairment charges, acquisition related costs, settlements recorded as a result of legal proceedings with third parties, or unforeseen obligations from earlier discontinued businesses.

The reconciliation of the comparable operating result to the operating result is presented in the table below.

Measures of profit and items affecting comparability

MEUR	2020	2019
Comparable adjusted EBITA	308	498
Purchase price allocation amortisation	-33	-41
Comparable operating result	275	457
Items affecting comparability:		
Social plan costs	-12	-31
Impairment and write-downs	-22	-36
Profits and losses from disposals	6	
Other costs	-14	-27
Items affecting comparability, total	-41	-95
Operating result	234	362

Entity wide information

In addition to segment information, Wärtsilä reports the service net sales for all segments and for other business activities.

Wärtsilä continues to report information for the geographical areas Finland, other European countries, Asia, the Americas, and other. In the geographical information provided, net sales are split by customer destination and non-current assets by origin. Non-current assets consist of goodwill, intangible assets, property, plant and equipment, right-of-use assets, and investments in associates and joint ventures.

Geographical information

During the financial period 1 January - 31 December 2020 and 1 January - 31 December 2019 Wärtsilä did not have any individual significant customers or countries. Of the total net sales, sales to the USA represented 11% (11) and sales to China 10% (11).

MEUR	2020	2019
Net sales		
Finland	98	78
Other European countries	1,445	1,612
Asia	1,570	1,968
The Americas	1,077	1,098
Other	415	414
Total	4,604	5,170
Non-current assets		
Finland	329	324
Other European countries	1,515	1,595
Asia	97	114
The Americas	235	271
Other	6	7
Total	2,183	2,310

Service net sales

MEUR	2020	2019
Net sales		
Marine Power, service	1,096	1,279
Marine Systems, service	219	202
Voyage, service	85	103
Energy, service	782	802
Portfolio Business, service	74	119
Total	2,255	2,505

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. **Group financial performance**
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2.2. REVENUE RECOGNITION

 **Accounting principles**

Revenue is presented net of indirect sales taxes, penalties and discounts. Revenue is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The transaction price may include variable considerations, such as penalties, performance bonuses and discounts. Revenue recognised by the reporting date corresponds to the benefit of the service provided by Wärtsilä to the customer.

The Group recognises revenue when it satisfies an identified performance obligation by transferring promised goods or services to the customer. Goods and services are generally considered to be transferred when the customer obtains control of them. Such control is transferred either at a point in time or over time.

Revenue from contracts with customers is derived from four revenue types. All these revenue types are represented within all reportable segments and other business activities: Marine Power, Marine Systems, Voyage, Energy and Portfolio Business.

Product sales consist of sales of spare parts and standard equipment, for which the revenue is recognised at a point in time when the control of the product has transferred to the customer, in general upon delivery of the goods. Product sale contracts generally include one performance obligation.

Goods and services -type of revenue involves short-term field service jobs, including the delivery of a combination of service and equipment. The revenue is recognised at a point in time when the service is rendered. Goods and service -type contracts, such as service orders, generally include one performance obligation.

Projects are of both short- and long-term duration. Depending on the contract terms and the duration of the project, the revenue is recognised at a point in time or over time. In large-scale system or equipment deliveries which require engineering, for example power plants and gas solutions construction contracts, the revenue is recognised over time as the asset produced does not have alternative use and the Group has an enforceable right to payment. These contracts usually contain one performance obligation. Revenue from tailor-made equipment delivery projects is recognised at a point in time when the control of the equipment is transferred, in general upon delivery. These contracts generally represent

one performance obligation, but under certain circumstances they can contain multiple performance obligations when a contract contains multiple units of delivery. Revenue from service related projects, such as modernisation and upgrade projects is recognised over time because the customer typically controls the asset that is enhanced. Service related projects usually contain one performance obligation.

Long-term agreements include long-term operating and maintenance agreements for which the revenue is recognised over time because the customer simultaneously receives and consumes the service provided. These contracts generally contain one performance obligation per installation.

Contracts with customers often include warranties in line with Wärtsilä's General terms and conditions, which are regarded as part of the promise to the customer. Extended warranties or warranties purchased as an option are identified as separate performance obligations with revenue being recognised evenly over the warranty period.

Revenue recognised over time is measured in accordance with the input method (progress measured based on costs incurred) when the outcome of the contract can be estimated reliably. When the outcome cannot be reliably determined, the costs arising are expensed in the same reporting period in which they occur, but the revenue is recorded only to the extent that the company will receive an amount corresponding to actual costs. Any losses are expensed immediately. If revenue for goods and services is recognised at a point in time, it is when control is transferred to the customer. The transfer of control is based mainly on transferring risks and rewards according to the delivery terms.

Should there be multiple contracts entered into with the same client at near the same time, the combination of the contracts is evaluated.

The Group applies the practical expedient according to IFRS 15.63 concerning significant financing components arising from contracts with customers. In case the lead time between the payments specified in the contract and the corresponding transferral of the promised good or service to the customer is one year or less, no adjustment is made for the effect of a possible significant financing component.

The Group also applies the practical expedient stated in IFRS 15.94 according to which an entity can recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity would have recognised is one year or less. Wärtsilä has not incurred any costs for obtaining a contract to be recognised as an asset.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. **Group financial performance**
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

⚠ Accounting estimates and judgements

Revenue from certain projects and long-term agreements is recognised over time according to the input method when the profit on the project or agreement can be reliably determined. The progress and the profitability are based on the management's estimates, which require significant judgement concerning the stage of completion, the cost to complete, and the time of completion. These estimates are reviewed regularly. Recognised revenue and costs recorded are adjusted during the project when assumptions concerning the outcome of the entire project are updated. Changes in assumptions relate to changes in the project's or agreement's schedule, the scope of supply, technology, costs, and any other relevant factors.

Establishing whether distinct goods or services are considered as separate performance obligations requires judgement and might impact the timing and amount of revenue recognition.

Project business contracts usually involve elements of variable consideration. At each reporting date, management reassesses the transaction price, which requires significant judgement as it affects the timing of the revenue recognition. The valuation of accounts receivables also includes estimates mainly concerning the recoverability of receivables.

Determining whether different contracts with the same customer are accounted for as one contract involves the use of judgement, as it requires an assessment of whether the contracts are negotiated together or linked in any other way. The timing and amount of revenue recognition can vary depending on whether two contracts are accounted for separately, or as one single arrangement.

Warranty provisions are recorded on the recognition of revenue. The provision is based on the accumulated experience of the level of warranty needed to manage future and current cost claims. Products can contain new and complex technology that can affect warranty estimates, with the result that earlier recognised provisions are not always sufficient.

Net sales by revenue type

MEUR	2020	2019
Products		
Marine Power	586	650
Marine Systems	139	133
Voyage	21	24
Energy	319	337
Portfolio Business	27	38
Total	1,091	1,184
Goods and services		
Marine Power	309	369
Marine Systems	60	69
Voyage	47	63
Energy	88	92
Portfolio Business	8	10
Total	511	603
Projects		
Marine Power	712	726
Marine Systems	606	750
Voyage	173	185
Energy	919	1,053
Portfolio Business	147	187
Total	2,557	2,899
Long-term agreements		
Marine Power	142	178
Marine Systems	2	1
Voyage	7	8
Energy	293	296
Portfolio Business		2
Total	445	484
Total	4,604	5,170

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Timing of satisfying performance obligations

MEUR	2020	2019
At a point in time		
Marine Power	1,536	1,687
Marine Systems	546	618
Voyage	169	195
Energy	809	1,102
Portfolio Business	90	124
Total	3,150	3,728
Over time		
Marine Power	213	236
Marine Systems	261	334
Voyage	79	85
Energy	811	676
Portfolio Business	92	113
Total	1,455	1,442
Total	4,604	5,170

2.3. OTHER OPERATING INCOME AND EXPENSES

Accounting principles

Other operating income and expenses comprise income and expenses that do not directly relate to the operating activities.

Other operating income includes, for example, gains from the sale of assets and regular incomes, such as rental income, and gains relating to business combinations, which have not been derived from primary activities. Other operating income includes also grants. Governmental and other grants are recognised in the statement of income on a systematic basis in the same periods in which the expenses are incurred.

Other operating expenses include, for example, travel costs, legal and consultancy costs, rental costs, voluntary personnel related costs, and administrative costs. Also, expenses related to short-term lease contracts and lease contracts of low-value assets are recognised in other operating expenses. In addition, losses related to the sale of assets, as well as

losses arising from modifications and terminations of lease agreements, are recognised in other operating expenses.

Other operating income

MEUR	2020	2019
Capital gains	11	15
Government grants	17	8
Sale of scrapped material	2	3
Sale of by-products	2	2
Rental income		1
Income related to cancelled orders*	2	2
Insurance indemnities	3	9
Other**	24	27
Total	61	67

* Expenses related to cancelled orders are recognised on respective expense accounts.

** Other does not include any significant single items.

Other operating expenses

MEUR	2020	2019
Travel costs	75	134
Rental costs	40	48
Legal and consultancy costs	77	95
Information technology costs	59	65
Other personnel related costs	48	59
Administrative costs	39	49
Other*	93	128
Total	431	578

* Other does not include any significant single items.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. **Group financial performance**
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2.4. MATERIAL AND SERVICES

Accounting principles

Material and services comprise of expenses from purchases of goods and consumables from suppliers for manufacturing less discounts and purchase tax refunds. Exchange gains or losses on accounts payable are included.

MEUR	2020	2019
Purchases during the financial period	1,475	-1,723
Change in inventories	-50	7
External services	-1,026	-1 287
Total	-2,551	-3,003

2.5. EMPLOYEE BENEFIT EXPENSES

Accounting principles

Employee benefits are all forms of consideration given in exchange for services rendered by employees or for the termination of employment. In addition, the Group has personnel expenses related to share-based payments and other personnel expenses.

The company's incentive scheme, which is tied to the price development of the company's share during a pre-determined timeframe, is measured at the fair value of the share on the reporting date and reported in the statement of income for the term-to-maturity of the bonus scheme. An upper limit is set for the bonus. When a bonus scheme ends, and the employment requirement is fulfilled, the bonus is settled in cash and/or shares.

The Group companies have various pension and other post-employment benefit plans in accordance with local conditions and practices worldwide. These plans are classified either as defined contribution plans or defined benefit plans.

In defined contribution plans, the Group pays fixed contributions into a separate entity, such as an insurance company. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employee benefits. The contributions are recognised in employee benefit expenses in the statement of income in the period to which they relate.

Accounting principles for defined benefit plans are presented in Note 4.7. Pension obligations.

MEUR	2020	2019
Wages and salaries	984	1,028
Pension costs		
Defined benefit plans	12	12
Defined contribution plans	64	74
Other compulsory personnel costs	132	146
Total	1,192	1,260

Management remuneration is specified in Note 7.2. Related party disclosures.

Long-term incentive schemes

Wages and salaries include EUR 7 million (4) in expenses arising from share-based long-term incentive schemes. At the end of 2020, Wärtsilä had three active long-term incentive schemes. These schemes are tied to the price development of the company's share during a pre-determined timeframe, and an upper limit is set for the payable incentive. When an incentive scheme ends and the employment requirement is fulfilled, the incentive is settled in cash (2018-2020 incentive scheme) or in company shares (2019-2021 and 2020-2022 incentive schemes). The Board of Management members shall acquire Wärtsilä shares with 50% of the net bonuses received, until the share ownership corresponding to the individuals' annual gross base salary level has been achieved.

The payment for incentive schemes is based on the share price development during a three-year period. The 2018-2020 incentive scheme comprises 3,150,000 rights, the 2019-2021 incentive scheme 4,585,000 rights and the 2020-2022 incentive scheme 8,400,000 rights. For the incentive scheme 2018-2020 the share price basis is EUR 22.58, for the incentive scheme 2019-2021 EUR 16.76, and for the incentive scheme 2020-2022 EUR 11.10. The incentive schemes take into account 100% of dividends paid, and the paid bonus cannot exceed EUR 8.47 per incentive right in the 2018-2020 scheme, EUR 6.56 in the 2019-2021 scheme, or EUR 4.31 in the 2020-2022 scheme.

The incentive rights, which are settled in cash, are valued and recognised at fair value on the balance sheet date taking into account the proportion of vesting period passed. The incentive rights, which are settled in company shares, are valued at fair value on the grant date of the scheme and are expensed evenly during the vesting period. The fair value determined for the incentive right in 2019-2021 scheme is EUR 2.69 and in 2020-2022 scheme EUR 1.34.

	2020	2019
Personnel on average	18,307	19,110
Personnel at the end of the financial period	17,792	18,795

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2.6. INCOME TAXES

Accounting principles

The statement of income includes taxes payable based on the Group's consolidated taxable income for the financial period in accordance with local tax regulations, tax adjustments for previous financial periods, and changes in deferred taxes. Tax effects related to transactions recognised through the statement of income and other events are recognised in the statement of income. Tax effects related to transactions or other events to be presented as components of other comprehensive income or directly in equity are also recognised, respectively, in other comprehensive income or directly in equity.

The current income tax charge is calculated according to tax laws enacted, or substantively enacted, on the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

Accounting estimates and judgements

The Group is subject to income taxes in several jurisdictions and the computation of the Group's income tax expense and income tax liabilities require judgement and estimation. Income tax positions are regularly evaluated by the management to identify situations when there might be uncertainty due to tax regulation being subject to interpretation. Provisions for these uncertain tax positions are recognised when it is considered more likely than not that the positions will be challenged by the tax authorities. The provision recognised is based on the estimation of the amount of the final taxes to be paid to the tax authorities.

MEUR	2020	2019
Income taxes		
for the financial period	-107	-130
for prior financial periods	8	-8
Change in deferred tax		
origination and reversal of temporary differences	40	43
changes in tax rates		-2
Total	-58	-97
Reconciliation of effective tax rate:		
Profit before taxes	191	315
Tax calculated at the domestic corporate tax rate 20.0%	-38	-63
Effect of changed tax rates		-2
Effect of different tax rates in foreign subsidiaries	15	15

Effect of income not subject to tax and non-deductible expenses	-7	-1
Effect of share of result of associates and joint ventures	1	-2
Utilisation of previously unrecognised tax losses carried forward	2	1
Unrecognised taxes on losses carried forward	-25	-13
Other taxes*	-14	-10
Other temporary differences		-13
Income taxes for prior financial periods	8	-8
Tax charge in the consolidated statement of income	-58	-97
Effective tax rate (%)	30.3	30.7

* Other taxes consist mainly of withholding taxes not utilised and taxes not directly based on taxable income.

Income taxes related to other comprehensive income are presented in Consolidated statement of comprehensive income. Changes in deferred tax assets and liabilities are presented in Note 4.6. Deferred taxes.

In some countries Wärtsilä is subject to tax audits, which can result in tax reassessment decisions and obligations to pay additional taxes and related payments.

2.7. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the financial period attributable to equity holders of the parent company by the adjusted average number of shares outstanding. During the financial periods there were no programmes with dilutive effect.

MEUR	2020	2019
Profit for the financial period attributable to equity holders of the parent company	134	217
Thousands of shares		
adjusted average number of shares outstanding*	591,723	591,723
Earnings per share attributable to equity holders of the parent company (basic and diluted):		
Earnings per share (EPS), basic and diluted, EUR	0.23	0.37

* Additional information on the number of shares is presented in Note 5.5. Equity.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

3. INTANGIBLE AND TANGIBLE ASSETS

3.1. GOODWILL

Accounting principles

Goodwill is the difference between the aggregate of the acquisition-date fair value of the consideration transferred, and the acquirer's share of the company's net identifiable assets and liabilities measured at fair value on the acquisition date. The consideration is measured at fair value, including also the acquirer's previously held equity interest.

Impairment of goodwill

The carrying amount of goodwill allocated to cash generating units (CGU) is reviewed annually for signs of possible impairment, or more frequently should any indication of impairment arise. If any such indication exists, the recoverable amount of the goodwill is estimated. In order to define a possible impairment, the Group's assets are divided into the smallest possible cash generating units, which are mainly independent of other units, and the cash flows of which are separately identifiable and to a large extent independent of the cash flows of other similar units.

An impairment loss is recognised when the carrying amount of an asset is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use for goodwill is based on the expected discounted future net cash flows resulting from the asset or cash generating unit.

A pre-tax rate, which reflects the markets' position on the time value of money and asset-specific risks, is used as the discount rate.

An impairment loss is recognised immediately as depreciation, amortisation and impairment in the statement of income. An impairment loss recognised for goodwill is not reversed under any circumstances.

Accounting estimates and judgements

The recoverable amounts of goodwill are determined for all cash generating units annually, or more often if there is an indication of an impairment, where its value in use is determined. The value in use is determined using estimates of future market development, such as growth and profitability, as well as other significant factors. The most important factors underlying such estimates are the net sales growth in the market area, the operating margin,



Goodwill EUR

1,325 million

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

the useful life of the assets, future investment needs, and the discount rate. Changes in these assumptions can significantly affect the expected future cash flows.

Significant judgement has been used when Wärtsilä management has evaluated indications of impairment. The recoverable amounts of the operating segments have been evaluated against the carrying values. The full financial impact of the coronavirus (COVID-19) outbreak cannot be quantified at this time, as it will depend on the duration and severity of the virus in different geographies, which largely depends on the measures taken to contain the virus, which in turn will determine the pace of recovery in these geographies. Therefore, estimates for market development, growth, and other significant factors is challenging in the current situation. The assumptions used in the evaluation of goodwill recoverability are based on management's best estimates under the current circumstances.

Goodwill 2020

MEUR	2020
Wärtsilä Group	
Wärtsilä on 1 January	1,380
Changes in exchange rates	-41
Wärtsilä on 30 June	1,339
Changes in exchange rates	-3
Disposals and impairments	-4
Reclassification to assets held for sale	-7
Wärtsilä on 31 December	1,325

Disposals and impairments of goodwill relate to divested businesses in Portfolio Business. These businesses were first classified as assets held for sale and later divested. The total impact of these divestments on the profit for the financial period is presented in Note 6.2. Disposals.

All businesses currently presented as assets held for sale belong to Portfolio Business. The total impact on the profit for the financial period is presented in Note 6.3. Assets held for sale.

Goodwill allocation

Goodwill arising from business acquisitions has been allocated to the new operating segments and other business activities, which are also the Group's CGUs in impairment testing of goodwill. From 1 July 2020 onwards, these are Marine Power, Marine Systems, Voyage, Energy, and Portfolio Business.

The reallocation has been performed using a relative value approach with minor exceptions.

MEUR	1.7.2020	31.12.2020
Marine Power	535	534
Marine Systems	165	165
Voyage	98	98
Energy	502	502
Portfolio Business	39	26
Total	1,339	1,325

Intermediate impairment testing

Due to the COVID-19 outbreak and the new organisational structure, Wärtsilä performed an intermediate impairment testing of goodwill during the second quarter of 2020. As a result of the impairment test, no impairment loss for the CGUs was recognised for the reporting period ended 30 June 2020.

Annual impairment testing of goodwill

The Group performed its annual impairment testing of goodwill during the third quarter of the year. Wärtsilä compared the recoverable amount of each business against its carrying amount to define whether there were any indications of goodwill impairment.

For Marine Power, Marine Systems, Voyage, and Energy, the recoverable amounts were defined based on the discounted cash flow method, derived from the order book and four-year cash flow projections. The estimated cash flows of the CGUs were based on the utilisation of existing property, plant, and equipment in their current condition with normal maintenance capital expenditure, excluding any potential future acquisitions. Cash flows beyond the four-year period were calculated using the terminal value method.

For the Portfolio Business units, which were classified as assets held for sale, the recoverable amounts were defined based on estimations of the selling price on cash-free, debt-free basis. For the other business units, the recoverable amounts were defined based on either the discounted cash flow method or estimations of the selling price on cash-free, debt-free basis, whichever was higher at the time.

The terminal growth rate used in projections is based on management's assessment on conservative long-term growth. The terminal growth rate used in the calculation were:

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Terminal growth rate, %	2020
Marine Power	1.5
Marine Systems	1.5
Voyage	2.5
Energy	2.0
Portfolio Business	0.0

The key driver for the valuation is growth in the global economy, and in particular, the development of the global power market, the global shipbuilding industry, and the demand for any related services. The projected development of total costs in the market affects the profitability, whereas no single cost item is considered to have a material impact. The valuation driver for new equipment sales is growth in the global economy, whereas for after sales the drivers are also the demand for related services and the projected development in labour costs.

The applied discount rates are the weighted average pre-tax cost of capital (WACC) for each CGU as defined by Wärtsilä. The components of the WACC rates are risk-free rate, market risk premium, industry specific beta, cost of debt and debt equity ratio. Wärtsilä has used the following WACC rates for each CGU:

WACC rate, %	2020
Marine Power	9.2
Marine Systems	9.5
Voyage	9.2
Energy	9.6
Portfolio Business	10.1

As a result of the impairment test, no impairment loss for the CGUs was recognised for the financial period ended on 30 September 2020. The recoverable amounts of Marine Power, Marine Systems, and Energy CGUs exceeded their respective carrying values substantially.

Also, the defined recoverable amount of Voyage CGU exceeded the carrying amount of the unit. The key assumption for Voyage CGU is that Voyage is estimated to break even within the next few years on the EBITDA level and that its growth rate will exceed the Group average. Any future negative changes in these assumptions would have an adverse impact on the valuation of the business.

According to the measuring requirements related to assets held for sale, Wärtsilä has written down certain assets in Portfolio Business in 2020. Part of these write-downs related to goodwill. However, based on the testing conducted in the annual impairment test, there was no additional impairment noted for Portfolio Business.

There are no recent indications of impairment of goodwill after the annual impairment testing.

Sensitivity analysis

The management has assessed that no reasonable possible changes in the key assumptions would cause the carrying amount of any CGU to exceed its recoverable amount. A sensitivity analysis has been carried out for the valuation of the recoverable amount for each CGU by changing the assumptions used in the calculation. A change in an assumption that would cause the recoverable amount to equal the carrying amount is presented in the table below separately for each CGU.

	Change
Marine Power	
Pre-tax discount rate	increase more than 8 percentage points
Terminal growth rate	decrease more than 8 percentage points
Profitability	decrease more than 51 percentage
Marine Systems	
Pre-tax discount rate	increase more than 25 percentage points
Terminal growth rate	decrease more than 34 percentage points
Profitability	decrease more than 72 percentage
Voyage	
Pre-tax discount rate	increase more than 4 percentage points
Terminal growth rate	decrease more than 3 percentage points
Profitability	decrease more than 37 percentage
Energy	
Pre-tax discount rate	increase more than 12 percentage points
Terminal growth rate	decrease more than 13 percentage points
Profitability	decrease more than 61 percentage

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

For Portfolio Business, the recoverable amount of the CGU was mainly defined based on estimations of the selling price on a cash-free debt-free basis for each individual business unit. Thus, the change in the pre-tax discount rate and in the terminal growth rate only has minimal impact on the valuation of the CGU. The recoverable amount of the CGU would need to decrease by 9 percentage to equal the carrying amount of the CGU.

In management's opinion, the changes in the basic assumptions shall not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

Goodwill 2019

MEUR	2019
Wärtsilä Group	
Wärtsilä on 1 January	1,355
Acquisitions	-1
Changes in exchange rates	26
Total	1,380

Goodwill allocation

Goodwill arising from business acquisitions is allocated to the Group CGUs that are the Group's operating segments Wärtsilä Marine Business and Wärtsilä Energy Business. As of 1 January 2019, the goodwill formerly allocated to the Group CGU has been allocated to the respective CGUs based on the fair value of the operating segments. The operating segments represent the lowest level within the Group at which the goodwill is monitored. The companies acquired during the financial period are integrated within the respective CGU at the acquisition date. The goodwill per CGU is presented in the table below.

Goodwill per cash generating unit

MEUR	2019
Wärtsilä Marine Business	847
Wärtsilä Energy Business	533
Total	1,380

Impairment testing of goodwill

The Group performs its annual impairment testing of goodwill on 30 September. Impairment of goodwill is also carried out when changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amounts from the CGUs are determined based on value-in-use calculations. The calculations are made on a discounted cash flow method basis, derived from the order book and five-year cash flow projections from strategic plans approved by management. The estimated cash flows of the CGUs are based on utilisation of the existing property, plant and equipment in their current condition with normal maintenance capital expenditure, excluding any potential future acquisitions. Cash flows beyond the five-year period are calculated using the terminal value method. The terminal growth rate used in projections is based on management's assessment on conservative long-term growth. The terminal growth rate used is 2%.

The key driver for the valuation is growth in the global economy and, in particular, the development of the global power market, the global shipbuilding industry, and the demand for related services. The projected development of total costs in the market affects the profitability, whereas no single cost item is considered to have a material impact. The valuation driver for the new equipment sales is growth in the global economy, whereas for after sales the drivers are also the demand for related services and the projected development in labour costs.

The applied discount rates are the weighted average pre-tax cost of capital (WACC) for each CGU as defined by Wärtsilä. The components of the WACC rates are the risk-free rate, market risk premium, industry specific beta, cost of debt, and debt equity ratio. Wärtsilä has used a WACC rate of 9.1% in the calculations for Wärtsilä Marine Business CGU and a WACC rate of 9.4% for Wärtsilä Energy Business CGU.

As a result of the impairment tests, no impairment loss for the CGUs was recognised for the financial period ended 31 December 2019. The recoverable amounts of both CGUs exceeded their respective carrying value substantially.

Sensitivity analysis

The management has assessed that no reasonable possible changes in the key assumptions would cause the carrying amount of either CGU to exceed its recoverable amount. A sensitivity analysis has been carried out for the valuation of the recoverable amount for each CGU by changing the assumptions used in the calculations. A change in an assumption that would cause the recoverable amount to equal the carrying amount is presented in the table below separately for each CGU.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

	Change
Wärtsilä Marine Business	
Pre-tax discount rate	increase more than 15 percentage points
Terminal growth rate	decrease more than 35 percentage points
Profitability	decrease more than 66 percentage
Wärtsilä Energy Business	
Pre-tax discount rate	increase more than 13 percentage points
Terminal growth rate	decrease more than 28 percentage points
Profitability	decrease more than 64 percentage

In management's opinion, the changes in the basic assumptions should not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

3.2. OTHER INTANGIBLE ASSETS

 **Accounting principles**

Research and development costs

Research costs are expensed in the reporting period during which they occur. Development costs are capitalised when it is probable that the development project will generate future economic benefits for the Group and when the related criteria, including commercial and technological feasibility, have been met. These projects involve the development of new or significantly improved products or production processes. Earlier expensed development costs are not capitalised.

Capitalised development costs are measured at cost less accumulated amortisations and impairment. Capitalised development costs are amortised and the cost of buildings, machinery, and facilities for development depreciated on a straight-line basis over their expected useful lives of 5-10 years. Amortisations are started when the asset is completed and can be taken into use. Before that, the asset is tested annually for impairment. Grants received for research and development are reported as other operating income. Grants related to capitalised development costs are netted with the costs incurred before the capitalisation.

Other intangible assets

Other intangible assets are recognised at cost if the cost is reliably measurable and the future economic benefits for the Group are probable. Wärtsilä's other intangible assets include patents, licences, software, customer relations and other intellectual property rights that can be transferred to a third party. These are measured at cost, except for intangible assets identified in connection with acquisitions, which are measured at the fair value at the acquisition date. The cost of intangible assets comprises the purchase price and all costs that can be directly attributed to preparing an asset for its intended use.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives. Intangible assets, for which the time limit for the right of use is agreed, are amortised over the life of the contract. Intangible assets identified in connection with acquisitions are amortised over their delivery times or estimated useful lives.

The general guidelines for scheduled amortisation are:

- Software 3-7 years
- Development expenses 5-10 years
- Other intangible assets 5-20 years

The amortisation of intangible assets is discontinued when an item is classified as held for sale.

A gain or loss arising from the sale of intangible assets is recognised as other operating income or other operating expenses in the statement of income.

Impairment of assets

The carrying amounts of assets are reviewed annually for signs of possible impairment or more frequently should any indication of impairment arise. If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. An impairment loss is recognised when the carrying amount of an asset is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

An impairment loss is recognised immediately as depreciation, amortisation and impairment in the statement of income. In connection with the recognition of the impairment loss, the useful life of the amortisable asset is reassessed. An earlier impairment loss recognised for an asset is reversed if the estimates used to determine the recoverable amount change. However, any reversal of impairment shall not exceed the asset's carrying amount less impairment loss.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Accounting estimates and judgements

Assessing the probability of expected future economic benefits and the useful lives of intangible assets require management judgement. The estimated useful lives and the residual values are reviewed at least at the end of each reporting period, and if they differ significantly from previous estimates, the amortisation periods are adjusted accordingly. Also, assessing any indication of impairment requires management judgement.

2020

MEUR	Development expenses	Construction in progress and advances paid	Other intangible assets	Total
Cost on 1 January 2020	169	85	860	1,114
Changes in exchange rates			-17	-18
Acquisitions and disposals			-1	-1
Additions	1	54	6	61
Decreases and other changes	-2	1	-21	-22
Reclassifications	15	-17	1	
Cost on 31 December 2020	182	123	829	1,134
Accumulated amortisation and impairment on 1 January 2020	-104		-613	-717
Changes in exchange rates			12	12
Accumulated amortisation on decreases and other changes	2		19	20
Amortisation during the financial period	-12		-43	-54
Impairments	-1	-1	-2	-4
Accumulated amortisation and impairment on 31 December 2020	-115	-1	-628	-743
Carrying amount on 31 December 2020	68	122	201	391

Development costs for internally generated assets capitalised during the financial period amounted to EUR 52 million (49). The carrying amount was EUR 179 million (135).

Purchase price allocation amortisation amounted to EUR 33 million (41) and the related carrying amount was EUR 171 million (209).

2019

MEUR	Development expenses	Construction in progress and advances paid	Other intangible assets	Total
Cost on 1 January 2019	141	53	857	1,051
Changes in exchange rates			11	11
Acquisitions and disposals			1	1
Additions	1	55	8	65
Decreases and other changes	-1		-13	-14
Reclassifications	28	-24	-4	
Cost on 31 December 2019	169	85	860	1,114
Accumulated amortisation and impairment on 1 January 2019	-94		-565	-659
Changes in exchange rates			-7	-7
Accumulated amortisation on decreases and other changes			11	11
Amortisation during the financial period	-11		-52	-62
Accumulated amortisation and impairment on 31 December 2019	-104		-613	-717
Carrying amount on 31 December 2019	65	85	247	397

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

3.3. PROPERTY, PLANT AND EQUIPMENT

 **Accounting principles**

Property, plant and equipment acquired by the Group are measured in the statement of financial position at cost less accumulated depreciation and impairment losses. The cost of an asset includes costs directly attributed to preparing the asset for its intended use. Grants received are reported as a reduction in costs. The property, plant and equipment of acquired subsidiaries are measured at their fair value at the acquisition date. The borrowing costs that are directly attributable to the asset acquisition, construction or production, and to the completion of the asset for its intended use or sale requiring necessarily a considerable length of time, will be capitalised in the statement of financial position as part of the cost of the asset. Other than directly attributable borrowing, costs are expensed in the period in which they are incurred.

Subsequent expenditure is included in the cost of an asset only if the future economic benefits are probable and the costs are reliably measurable. Expenditure related to regular, extensive inspections and maintenance is treated as an investment, capitalised and depreciated during the useful life. All other expenditure, such as ordinary maintenance and repairs, is recognised in the statement of income as an expense as incurred.

Depreciation is based on the following estimated useful lives:

- Buildings 10-40 years
- Machinery and equipment 5-20 years
- Other tangible assets 3-10 years

Depreciation is expensed on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated, as its useful life is considered as infinite. The estimated useful lives and the residual values are reviewed at least at the end of each reporting period, and if they differ significantly from previous estimates, the depreciation periods are adjusted accordingly. Depreciation of property, plant and equipment is discontinued when an item is classified as held for sale.

A gain or loss arising from the sale of property, plant and equipment is recognised as other operating income or other operating expenses in the statement of income.

Impairment of assets

The carrying amounts of assets are reviewed annually for signs of possible impairment, or more frequently should any indication of impairment arise. If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. An impairment loss is recognised when the carrying amount of an asset is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

An impairment loss is recognised immediately as depreciation, amortisation and impairment in the statement of income. In connection with the recognition of the impairment loss, the useful life of the depreciable asset is reassessed. An earlier impairment loss recognised for an asset is reversed if the estimates used to determine the recoverable amount change. However, any reversal of impairment shall not exceed the asset's carrying amount less impairment loss.

 **Accounting estimates and judgements**

Assessing the probability of expected future economic benefits and useful lives of property, plant and equipment require management judgement. The estimated useful lives and residual values are reviewed at least at the end of each reporting period, and if they differ significantly from previous estimates, the depreciation periods are adjusted accordingly. Also, assessing any indication of impairment requires management judgement.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2020

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Total
Cost on 1 January 2020	30	283	798	32	25	1,167
Changes in exchange rates		-7	-14			-22
Acquisitions and disposals		-1	-8			-10
Additions		4	26	22	2	54
Decreases	-5	-13	-35			-52
Reclassifications		4	16	-20		-1
Cost on 31 December 2020	25	270	782	32	26	1,135
Accumulated depreciation and impairment on 1 January 2020	-1	-179	-659		-21	-860
Changes in exchange rates		5	11			16
Accumulated depreciation on decreases and disposals		11	37			49
Depreciation during the financial period		-12	-38		-1	-51
Impairments		-1	-5			-6
Accumulated depreciation and impairment on 31 December 2020	-1	-176	-654		-22	-853
Carrying amount on 31 December 2020	24	93	128	32	4	282

2019

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Total
Cost on 1 January 2019	31	297	780	40	24	1,171
Transfer to right-of-use assets		-1	-1			-2
Changes in exchange rates		1	2			3
Additions		3	27	18	1	49
Decreases	-1	-18	-30			-50
Reclassifications		1	22	-25		-2
Cost on 31 December 2019	30	283	798	32	25	1,167
Accumulated depreciation and impairment on 1 January 2019	-1	-177	-648		-21	-847
Changes in exchange rates			-1			-1
Accumulated depreciation on decreases		11	29			41
Depreciation during the financial period		-13	-40		-1	-54
Impairments			-1			-1
Accumulated depreciation and impairment on 31 December 2019	-1	-179	-659		-21	-860
Carrying amount on 31 December 2019	29	104	139	31	3	307

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
- 3. Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

3.4. LEASES

 **Accounting principles**

The Group's capitalised lease agreements consist mainly of office premises, vehicles, and production machinery and equipment. The average lease period for buildings is approximately eight years, and for machinery and equipment approximately four years. The Group recognises a right-of-use (ROU) asset and a lease liability at the commencement of the lease. Whether a contract contains a lease is determined based on whether Wärtsilä has the right to control the use of an identified asset for a period of time.

At the commencement date, a right-of-use asset as defined by IFRS 16 is measured at cost. The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The nominal lease liability is initially measured at the present value of the lease payments over the lease term. The lease payments include fixed payments, amounts to be expected to be paid under residual value guarantees, the exercise price of reasonably certain extension options, and payments of penalties for terminating a lease in case this reflects the lease term. The lease payments are discounted using the interest rate implicit in the lease, if this rate can be readily determined. Otherwise, the lessee's incremental borrowing rate is used. The incremental borrowing rates used are the sum of relevant interbank rates and the average margin of the Group loan portfolio, and are currency specific.

The initial measurement of the lease payments does not include possible variable elements. Variable lease payments not included in the initial measurement of the lease liability are recognised directly in the statement of income as other operating expenses.

The lease term is the non-cancellable period of the lease plus the period covered by an option to extend or terminate if the lessee is reasonably certain to exercise the option.

Subsequently, the right-of-use assets are measured at initial measurement less accumulated depreciation and impairment losses. The right-of-use assets are depreciated and interest

on lease liabilities recognised in interest expenses in the statement of income over the lease term. The lease liabilities are subsequently measured at initial recognition less occurring lease payments that are allocated to the principal.

Lease payments are presented as repayments of liabilities and related interest expenses. The lease payments are presented in the cash flow from financing activities, and the interest related to leases are presented in the cash flow from operating activities. Lease payments related to short-term leases, low-value assets, and variable payments are presented in the cash flow from operating activities.

Contracts may combine different kinds of obligations to the supplier, which might be a combination of lease components or a combination of lease and non-lease components. These lease and non-lease components are accounted for separately and the consideration is allocated between the components based on relative stand-alone selling prices.

The lease and non-lease components are separated. Should separating the components not be possible, judgement is used to allocate the non-lease component in the accounting. The selection of separating the non-lease component or not from the lease, is applied to the whole asset class, buildings, and machinery and equipment.

Modifications to lease agreements may result in adjustments to existing right-of-use assets and lease liabilities. A gain or loss arising from a modification or a termination of a lease agreement is recognised as other operating income or other operating expenses in the statement of income.

The Group applies the two available exemptions, which relate to either short-term contracts, in which the lease term is less than 12 months, or low-value assets, which are expensed to other operating expenses.

 **Accounting estimates and judgements**

Management judgement based on realistic estimates is used when determining the lease term, especially concerning lease agreements for buildings containing termination or extension options and lease agreements with an indefinite lease term.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. **Intangible and tangible assets**
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

MEUR	2020	2019
Land and buildings, right-of-use assets		
Carrying amount on 1 January 2020	174	203
Changes in exchange rates	-6	
Acquisitions and disposals	-2	
Additions	29	28
Depreciation and impairment	-40	-43
Decreases and reclassifications	-6	-14
Carrying amount on 31 December 2020	151	174
Machinery and equipment, right-of-use assets		
Carrying amount on 1 January 2020	11	12
Additions	8	6
Depreciation and impairment	-7	-6
Decreases and reclassifications	-1	-1
Carrying amount on 31 December 2020	11	11
Lease liabilities		
Carrying amount on 1 January 2020	188	215
Changes in exchange rates	-6	
Acquisitions and disposals	-1	
Additions	37	33
Interest expenses		2
Payments	-45	-49
Other adjustments	-7	-13
Carrying amount on 31 December 2020	166	188
Total lease liabilities		
Non-current	124	146
Current	42	42

MEUR	2020	2019
Amounts recognised in statement of income		
Depreciation and impairment of right-of-use assets	-47	-49
Interest expenses	-4	-5
Expense - short-term leases	-27	-32
Expense - leases of low-value assets	-4	-6
Expense - variable lease payments	-4	-4

3.5. DEPRECIATION, AMORTISATION AND IMPAIRMENT

MEUR	2020	2019
Development expenses	12	11
Purchase price allocation amortisation	33	41
Other intangible assets	9	10
Buildings and structures	12	13
Land and buildings, right-of-use assets	40	43
Machinery and equipment	38	40
Machinery and equipment, right-of-use assets	7	6
Other tangible assets	1	1
Impairment	21	15
Total	174	180

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

4. WORKING CAPITAL AND OTHER BALANCE SHEET ITEMS

4.1. INVENTORIES

Accounting principles

Inventories are valued at the lower of cost and net realisable value. Materials and consumables are valued at weighted average cost or at moving average price. Finished products are valued at direct purchasing and manufacturing costs plus allocated purchasing and manufacturing overhead costs. Work in progress includes costs for direct labour and material costs, and allocated overhead costs related to manufacturing and purchasing when control has not yet been transferred to the customer.

Accounting estimates and judgements

Writing down inventories to net realisable value due to obsolete and excess stock, is performed based on the management's best estimate on the balance sheet date. An analysis of inventory ageing, turn-over, and composition compared to anticipated future use, is the basis for the estimates.

MEUR	2020	2019
Materials and consumables	453	484
Work in progress	632	736
Finished products	45	53
Advances paid	62	93
Total	1,192	1,365

In 2020, EUR 24 million (4) impairment for obsolete inventories has been recognised in the consolidated statement of income. The total value of inventories related to assets held for sale amounts to EUR 23 million (18).

Although COVID-19 has impacted spare part sales volumes to some extent, the impact is not so significant that it would elevate the inherent risk of valuation relating to inventories. Cancellations of orders have been largely in line with normal levels in Wärtsilä. Also, Wärtsilä safeguards the recoverability of work in progress with advance payments collected from customers.



Working capital EUR
257 million

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

4.2. TRADE RECEIVABLES AND CONTRACT ASSETS AND LIABILITIES

 **Accounting principles**

Trade receivables are recognised when the right to consideration becomes unconditional. The Group's trade receivables are measured at amortised cost, which is the original invoiced amount less an estimated valuation allowance for impairment. The Group assesses any possible increase in the credit risk for financial assets measured at amortised cost at the end of each reporting period individually. The methodology applied depends on whether there has been a significant increase in credit risk. If there has not been a significant increase in credit risk, the loss allowance is estimated at an amount equal to lifetime expected credit losses at the current reporting date.

For trade receivables and contract assets, a simplified approach is used, and the loss allowance is measured at the estimate of the lifetime expected credit losses. The Group uses a provision matrix for estimating the expected credit loss where receivables are segregated depending on the ageing category and the origin of the receivable. The Group has an effective collection process in place which decreases the possible risk of credit losses. Also, to mitigate the credit risk, advance payments and payment guarantees are in use. In calculating the expected credit loss rates, the Group considers historical loss rates for each category, and adjusts for forward looking macroeconomic data. Based on the analysis, for trade receivables not due, or a maximum of 359 days overdue, an impairment of 0.1%-2.0% is made. In addition to that, trade receivables more than 360 days old are assessed individually for impairment. Examples of events giving rise to impairment include a debtor's serious financial problems, and a debtor's probable bankruptcy or other financial arrangement.

Trade receivables are permanently written off when there is no reasonable expectation of recovery.

The Group may sell undivided interests in trade receivables on an ongoing and one-time basis to lending institutions. Financial assets sold under these arrangements are excluded from trade receivables in the statement of financial position at the time of payment from the acquirer, providing that substantially all risks and rewards have been transferred. If the acquirer has not settled payment to the extent that the ownership, risk, and control over the receivable have been substantially transferred, then such financial assets sold are re-recognised in the statement of financial position at the end of the reporting period.

Contract assets and liabilities are related to contracts with customers.

When control over goods or services is transferred to a customer before the customer pays the consideration, the receivable is recognised as a contract asset. The contract asset represents the right to future consideration. Contract assets primarily relate to the Group's right to consideration for transferred goods or services, but which is not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

When the customer pays consideration in advance, or when the consideration is due before transferring the contractual performance obligation, the amount received in advance is presented as a contract liability. Contract liabilities are recognised as revenue when the Group performs under the contract. Advances received and deferred revenue relate to payments received, or invoicing in excess of revenue recognised.

 **Accounting estimates and judgements**

Estimated expected credit loss provisions are based on management's best judgement. Management judgement includes past years' experience and a forward-looking understanding of the client's payment behaviour and economic situation.

Assessing whether or not it is probable that the consideration from contracts with customers will be collected requires judgement, and might impact the timing and amount of revenue recognition.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Contract assets and liabilities

MEUR	2020	2019
Trade receivables	953	1,255
Contract assets	389	515
Contract liabilities		
Advances received	452	452
Deferred income	524	465
Trade receivables and contract assets		
Non-current	30	19
Current	1,311	1,752
Contract liabilities		
Non-current	51	38
Current	926	880
Revenue recognised in the financial period that was included in the contract liability on 1 January	880	888
Unsatisfied performance obligations, all revenue types	6,748	7,427
of which remaining performance obligations from projects and contracts under execution	3,898	3,959

The contract assets and liabilities arise from long-term service agreements and projects recognised over time, such as gas solutions construction contracts, integrated solutions projects, ship design, and energy solutions turnkey contracts. The decrease in contract assets arises from usual business-related project variations mainly in Energy business. Also, the increase in contract liabilities arises from usual business-related project variations, mainly in Marine Systems business.

Credit risk included in Wärtsilä's receivables and the recoverability of contract assets has been evaluated under the uncertainty caused by the COVID-19 pandemic. There has not been any significant indication of change in customer payment behaviour, and therefore same principles have been applied for expected credit loss recognition as in the Annual Report 2019. The collection of trade receivables has been emphasised. The risk in the recoverability of the contract assets is not seen to have significantly increased. As of the reporting date, Wärtsilä has not received any significant cancellations for projects or long-term agreements under execution. Cancellations and postponements of orders have largely been in line with the normal levels.

Ageing of trade receivables

MEUR	Trade receivables	2020 of which impaired	Trade receivables	2019 of which impaired
Not past due	657	1	788	1
Past due 1–30 days	112		149	
Past due 31–180 days	123	2	227	2
Past due 181–360 days	29	3	73	1
Past due 1 year	93	56	81	57
Total	1,014	61	1,317	61

In 2020, the result impact of write-offs was EUR -5 million (-7).

Impairment

MEUR	2020	2019
Impairment, beginning of period	61	62
Money received	-27	-10
Impairment during the period	34	17
Write-off during the period	-5	-7
Impairment, end of period	61	61

The Group sells trade receivables in an amount that is currently not significant compared to the trade receivables as a whole. Sold receivables have been de-recognised in the statement of financial position.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes


Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

4.3. OTHER RECEIVABLES

 **Accounting principles**
Other receivables are recognised at amortised cost.

MEUR	2020	2019
Derivatives	37	24
Interest and other financial items	4	6
Insurance receivables	3	6
Rental accruals	2	3
Prepaid expenses	6	14
Other accruals	34	41
Loan receivables	2	2
Defined benefit plans	1	1
VAT receivables	124	111
Other*	56	88
Total	269	296
Non-current	11	15
Current	258	281


* Other receivables includes payroll related tax receivables of EUR 7 million (9) in Brazil, which cannot be utilised likely within a year. In 2019 current other receivables also included a receivable of EUR 21 million relating to disposal of pump business, which has been received in 2020.

4.4. TRADE PAYABLES AND OTHER LIABILITIES

 **Accounting principles**
Trade payables and other liabilities are initially recognised at fair value and subsequently measured at amortised cost.

MEUR	2020	2019
Trade payables	411	624
Accrued expenses	315	320
Personnel costs	154	125
Derivatives	27	23
Interest and other financial items	4	4
Other accruals	43	41
VAT liabilities	40	39
Other	81	70
Total	1,076	1,247
Non-current	1	1
Current	1,075	1,246

4.5. PROVISIONS

 **Accounting principles**
Provisions are recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions can arise, for example, from warranties, environmental risks, litigation, foreseeable losses on projects, and restructuring costs. The amount to be recognised as provisions corresponds to the management's best estimate of the expenses that will be necessary to meet the existing obligation at the end of the reporting period.

Warranty provisions include estimated future warranty costs relating to products delivered. The amount of future warranty costs is based on accumulated historical experience. Typically the standard warranty period is one year from the delivery onwards.

Provisions for restructuring costs are made once the restructuring plan has been approved and the implementation started, or the personnel concerned have been informed of the terms. The plan must indicate which activities and personnel will be affected, as well as the timing and cost of implementation.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

The Group is a defendant in a number of legal cases which arise out of, or are incidental to, the ordinary course of its business. These lawsuits concern mainly issues, such as contractual and other liability, labour relations, property damage and regulatory matters. The Group receives from time to time claims of different amounts and with varying degrees of substantiation. It is the Group's policy to provide for amounts related to the claims, as well as for the litigation and arbitration matters when an unfavourable outcome is probable and the amount of loss can be reasonably estimated.

⚠ Accounting estimates and judgements

The Group is a defendant in a number of legal cases arising from its business operations. A provision for a court case is recognised when an unfavourable result is probable, and the loss can be determined with reasonable certainty. The final result can differ from these estimates.

2020

MEUR	Litigation	Warranties	Onerous contracts	Restructuring	Other provision	Total
Provisions on 1 January 2020	10	174	89	13	38	323
Changes in exchange rates		-2	-3		-1	-6
Disposals		-2				-2
Additions	2	49	87	12	21	170
Used provisions	-1	-42	-87	-13	-5	-148
Released provisions		-2	-6	-2	-2	-13
Provisions on 31 December 2020	10	174	80	9	50	324
Non-current						55
Current						269

There is currently one unusually sizeable claim, but it is highly unlikely that the outcome of it will be unfavourable. The claim is treated as a contingent liability.

2019

MEUR	Litigation	Warranties	Onerous contracts	Restructuring	Other provision	Total
Provisions on 1 January 2019	21	172	67	7	38	305
Changes in exchange rates						1
Additions	4	52	100	20	14	190
Used provisions	-14	-51	-71	-13	-9	-159
Released provisions	-1		-7	-2	-5	-14
Provisions on 31 December 2019	10	174	89	13	38	323
Non-current						45
Current						278

4.6. DEFERRED TAXES

📄 Accounting principles

Deferred tax liabilities and assets are calculated on temporary differences arising from the difference between the tax basis of assets and liabilities, and the carrying values using the enacted or substantially enacted tax rates at the end of the reporting period. The statement of financial position includes deferred tax liabilities in their entirety and deferred tax assets at their estimated probable amount.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities which intend to settle the balances on a net basis.

⚠ Accounting estimates and judgements

Estimates of tax liabilities and receivables relate mainly to the expected result of ongoing tax audits, and to the recognition of deferred tax receivables from tax losses. Deferred tax assets on unutilised tax losses and other temporary differences are recognised to the extent it is highly probable that taxable profit is available. No deferred tax assets are recognised from tax losses when there is uncertainty of their utilisation.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Changes in deferred taxes during 2020

MEUR	1 January 2020	Recognised in the consolidated statement of income	Other comprehensive income	Translation differences	Acquisitions and disposals	31 December 2020
Deferred tax assets						
Tax loss carry-forwards	34	27		-1	-1	58
Pension obligations	27	-1	-1			25
Provisions	35	2		-1		36
Elimination of intragroup margin in inventories	6	1				7
Fair value reserve	6		1	-1		6
Other temporary differences	55	10		-4	2	63
Reclassification to assets held for sale	-8					-12
Total	155	39		-8		183
Deferred tax liabilities						
Intangible assets and property, plant and equipment	59	-7		-2		50
Fair value reserve	1		1			2
Other temporary differences	32	5	-1	-1	1	36
Reclassification to assets held for sale	-8					-12
Total	83	-1		-2	1	76
Net deferred tax assets/liabilities	72	40		-6	-1	107

On 31 December 2020, the Group had temporary differences on which no deferred tax assets were booked, totalling EUR 68 million (64), as it is uncertain if they will be realised. Most of the unrecognised deferred tax assets are related to cumulative tax losses. Of these, EUR 19 million (29) will expire within the next five years and the rest will expire later or never. Most of the cumulative tax losses on which deferred tax assets have been booked will never expire.

Changes in deferred taxes during 2019

MEUR	1 January 2019	Recognised in the consolidated statement of income	Other comprehensive income	Translation differences	Acquisitions and disposals	31 December 2019
Deferred tax assets						
Tax loss carry-forwards	18	17			-1	34
Pension obligations	21	1	5			27
Provisions	28	7				35
Elimination of intragroup margin in inventories	5	1				6
Fair value reserve	9		-3			6
Other temporary differences	49	6			-1	55
Reclassification to assets held for sale						-8
Total	129	32	2		-2	155
Deferred tax liabilities						
Intangible assets and property, plant and equipment	66	-10		2		59
Fair value reserve			1			1
Other temporary differences	32					32
Reclassification to assets held for sale						-8
Total	99	-10	1	1		83
Net deferred tax assets/liabilities	30	41	1	-1	-2	72

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

4.7. PENSION OBLIGATIONS

 **Accounting principles**

Group companies in different countries have various pension plans in accordance with local conditions and practices. These pension plans are classified either as defined contribution or defined benefit plans.

Defined benefit plans are funded through contributions to pension funds or pension insurance companies. Defined benefit plans may be unfunded or wholly or partly funded. The present value of the obligation arising from the defined benefit plans is determined per each plan using actuarial techniques, the projected unit credit method. The Group recognises the defined benefit obligation, net of fair value of the plan assets, at the end of the financial period.

Actuarial gains and losses and other re-measurements of the net defined benefit obligation are recognised immediately in the statement of other comprehensive income. Current service cost is the present value of the post-employment benefit, which is earned by the employees during the year. The Group determines the net interest expense on the net defined benefit plan by applying the discount rate used to measure the defined benefit obligation. Service cost is recognised in employee benefit expenses and the net interest in financial expenses. The defined benefit plans are calculated by qualified actuaries.

In addition to defined benefit plans, Wärtsilä has other long-term employee benefits, which are presented separately from the defined benefit plans. As with the accounting for a defined benefit plan, for any other long-term benefit the Group recognises a liability for the obligation, net of the fair value of the plan assets, if any. Changes in other long-term employee benefits are recognised in the statement of income.

Accounting principles for defined contribution plans are presented in Note 2.5. Employee benefit expenses.

 **Accounting estimates and judgements**

Estimates of pension obligations regarding each defined benefit plan are based on actuarial estimates of factors, including future salary increases, discount rates, and return on plan assets. Changes in these assumptions can significantly affect the Group's pension obligations and pension costs.

MEUR	2020	2019
Net defined benefit liabilities on 31 December	139	155
Liability for other long-term employee benefits on 31 December	16	15

Wärtsilä has defined benefit plans for its employees mainly in Europe and Asia. The major plans are located in Switzerland, Germany, United Kingdom and Sweden. The Swiss defined benefit plan accounts for 32% of the Group's total defined benefit obligations and 56% of the plans' assets. Most of the plans provide a lifetime pension to the members at the normal retirement age, but there are also plans that provide a lump sum payment at the retirement date. Most of these defined benefit pension plans are managed by pension funds. Their assets are not included in the Group's assets. The plans' assets are typically invested according to the investment strategies approved by the funds' Board of Trustees, or in some cases are completely administered by insurance companies. Wärtsilä Group companies make their payments to pension funds in accordance with local legislation and practice. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans.

The Swiss plan

Wärtsilä operates a defined benefit plan in Switzerland in accordance with the local pension laws and regulations. The plan provides benefits to the members in the form of a pension payable after retirement. The level of benefits provided depends on the accrued retirement savings capital, which is a result of contributions paid up to retirement plus respective interest. The plan is run as a pension fund by the Board of Trustees separately from the company.

Contributions to the plan are paid both by the employees, as well as by the employers based on a percentage of the insured salary as defined in the pension fund regulations. Contributions by the employers vary depending on the age of the employee, and cover on average two thirds of the total contributions.

The investment strategy for a pension fund's asset is the responsibility of the Board of Trustees. Assets are invested in accordance with the strategy and the corridors for different investment categories as defined by local laws. Other risks of the plan are the longevity of plan members, as well as the death or disability of employees before their retirement. The pension plan is reinsured for the risk of death and disability until 31 December 2021. Inflationary increases for pensions in payment are at the discretion of the Board of Trustees when benefits paid by the plan are exceeding the minimum level required by law.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

The German plans

Wärtsilä operates defined benefit plans in Germany in accordance with local pension laws and regulations. The plans provide benefits to the members in the form of a pension payable after retirement. The level of benefits provided depends on the accrued retirement savings capital, which is a result of contributions paid up to retirement plus respective interest. The plans vary from unfunded plans, to a plan run as a pension fund.

In some of the plans, contributions are paid to the plan, both by the employees and the employers based on a percentage of the insured salary as defined in the pension fund regulations. However, in some plans only the employer is obliged to make the payments. Contributions by the employers vary depending on the age of the employee, the duration of the employment, and also on the position of the employee.

The main risks of the plans are the longevity of plan members, and the death or disability of employees before their retirement. In a funded plan, the investment strategy chosen also includes certain risk. Inflationary increases for pensions in payment are valued on a yearly basis.

MEUR	2020	2019
Present value of unfunded defined benefit obligations	111	119
Present value of funded defined benefit obligations	180	182
Fair value of plan assets	-151	-146
Net liability in the statement of financial position	139	155

%	Present value of defined benefit obligations	Fair value of plan assets
Switzerland	32	56
Germany	19	
Other Europe	39	32
Asia	9	12
Total	100	100

MEUR	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance on 1 January 2019	282	-134	149
Changes in exchange rates	5	-4	
Recognised in the statement of income:			
Current service cost	13		13
Gains (-) / losses (+) on curtailments and settlements	-1		-1
Interest cost (+) / interest income (-)	5	-2	3
Remeasurements recognised in other comprehensive income:			
Return on plan assets, excluding interest income		-11	-11
Experience adjustments	1		1
Changes in demographic assumptions	-1		-1
Changes in financial assumptions	30		30
Contribution paid by the plan members	1	-1	
Contribution paid by the employer		-10	-10
Benefits paid	-21	10	-12
Reclassification to assets held for sale	-15	7	-8
Balance on 31 December 2019	299	-146	155

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Balance on 1 January 2020	299	-146	155
Changes in exchange rates	-2	2	
Recognised in the statement of income:			
Current service cost	10		10
Past service cost (- credit)	1		1
Gains (-) / losses (+) on curtailments and settlements	1		1
Interest cost (+) / interest income (-)	3	-2	2
Remeasurements recognised in other comprehensive income:			
Return on plan assets, excluding interest income		-6	-6
Experience adjustments	-4		-4
Changes in financial assumptions	5		5
Contribution paid by the plan members	1	-1	
Contribution paid by the employer		-8	-8
Benefits paid	-22	9	-14
Reclassification to assets held for sale	-2		-2
Balance on 31 December 2020	290	-151	139

Plan assets invested in:

%	2020	2019
Shares and other equity instruments	18	18
Bonds and other debt instruments	39	35
Property	17	17
Other assets	26	30

The main actuarial assumptions at the end of the financial period are (expressed as weighted averages):

%	2020	2019
Discount rate	1.00	1.08
Future salary growth	2.01	2.03
Future pension growth	1.00	1.14

On 31 December 2020, the weighted average duration of the defined benefit obligation was 8 years (12). The Group expects to contribute EUR 3 million (7) to the plans during the next financial period.

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in each country. These assumptions translate into a weighted average life expectancy in years for a pensioner at the retirement age as follows:

	2020	2019
Plan participants retiring at the end of the financial period:		
Male	17.3	17.4
Female	19.8	20.0
Plan participants retiring 20 years after the end of the financial period:		
Male	17.0	18.4
Female	19.1	20.4

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the end of the financial period. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety.

Sensitivity analysis

	Change in assumption	Effect to defined benefit obligation, MEUR	
		2020	2019
Discount rate	increase 1%	-37	-41
Discount rate	decrease 1%	48	51
Future salary growth	increase 1%	8	10
Future salary growth	decrease 1%	-7	-8
Future pension growth	increase 1%	29	30
Future pension growth	decrease 1%	-15	-16

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

5. CAPITAL STRUCTURE AND FINANCIAL ITEMS

5.1. FINANCIAL INCOME AND EXPENSES

Accounting principles

Service cost related to pension plans is recognised in employee benefit expenses and the net interest in financial expenses. Also, gains and losses from fair valuation and disposal and impairments of other shares are included in financial income and expenses.

Changes in the fair value of interest rate hedges against Wärtsilä Group's loan portfolio are immediately recognised in financial income or expenses in the statement of income. The fair value of interest rate swaps is calculated by discounting the future cash flows.

Exchange rate differences related to financial assets and financial liabilities are reported as financial items in the statement of income, except exchange rate differences related to non-current debt that is part of the Group's net investment in a subsidiary.

MEUR	2020	2019
Interest income on loans and receivables	3	1
Interest income on financial assets at fair value through the statement of income	12	23
Interest income on investments at amortised cost	1	2
Other financial income		1
Total financial income	16	27
Interest expenses on financial liabilities recognised at amortised cost	-9	-10
Interest expenses on lease liabilities recognised at amortised cost	-4	-5
Interest expenses on financial liabilities at fair value through the statement of income	-21	-36
Net interest from defined benefit plans	-2	-3
Changes in fair values of financial assets/liabilities at fair value through the statement of income		-5
Exchange rate differences*	-16	-10
Fee expenses	-2	-2
Other financial expenses	-4	-4
Total financial expenses	-59	-74
Total	-43	-47



BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

* In 2020, the result from the ineffective portion of cash flow hedges related to cancelled projects, EUR -1 million (-5), and exchange rate differences from unhedged internal loans, EUR -10 million (-8) were included in exchange rate differences.

5.2. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

 **Accounting principles**

Financial instruments

Financial instruments are initially recognised at fair value. Subsequently, financial assets are classified and measured at amortised cost, at fair value through statement of income, or at fair value through other comprehensive income. The classification of financial assets is defined by the business model and the cash flow characteristics of the asset. Financial liabilities are subsequently classified and measured at amortised cost or at fair value through statement of income.

Financial instruments are classified as current financial instruments unless the maturity of the financial instrument exceeds 12 months from the reporting date. Financial instruments are derecognised only when the financial instrument is extinguished, or when the contractually specified right or obligation is discharged, cancelled, or when it expires. The status of financial instruments is evaluated at each reporting date.

Financial instruments at amortised cost

Financial assets

Financial assets measured at amortised cost include cash and cash equivalents, investments in debt instruments, commercial papers, trade receivables and other receivables. The assets are initially recognised at fair value less the transaction costs, and are subsequently measured at amortised cost by using the effective interest rate method. These assets are held for collecting contractual cash flows, which are solely payments of principal and interest. Interest income is recognised as financial income in the statement of income.

The Group applies the simplified method in IFRS 9 for the expected credit losses from its trade receivables. This requires expected lifetime credit losses to be recognised from the initial recognition of the receivables, as defined in Note 4.2. Trade receivables and contract assets and liabilities.

Financial Liabilities

Financial liabilities measured at amortised cost include trade and other payables, loans, and borrowings. These liabilities are initially recognised at fair value less the transaction costs related to the acquisition of these liabilities. The liabilities are subsequently classified and

measured using the effective interest rate method by amortising the discounted interest payments over the maturity of the liabilities. Interest expense is recognised in the financial expense in the statement of income.

Financial instruments at fair value through the statement of income

Financial assets

Financial assets measured at fair value through the statement of income include other financial investments, other short-term cash investments and derivatives, which are not included in the hedge accounting. These financial investments include Wärtsilä's investments in other companies (both listed and unlisted shares).

Changes in fair value and gains and losses at derecognition of these financial assets are recognised in the statement of income.

Gains and losses from fair valuation and the disposal and impairments of shares that are attributable to operating activities are included in operating income, while gains and losses from fair valuation and the disposal and impairments of other shares are included in financial income and expenses.

Financial liabilities

Financial liabilities recognised at fair value through the statement of income include derivatives that are not eligible for hedge accounting.

Changes in fair value and gains and losses at derecognition of these financial assets are recognised in the statement of income.

Financial Instruments at fair value through other comprehensive income

Financial assets and liabilities recognised at fair value through other comprehensive income include the effective portion of derivatives eligible for hedge accounting.

Information on measurement categories of derivatives and financial instruments in hedge accounting are presented in Note 5.7. Derivative financial instruments.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2020

MEUR	Measured at amortised cost	At fair value through the statement of income	At fair value through other comprehensive income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets					
Interest-bearing investments		1		1	1
Trade receivables	30			30	30
Derivatives		1		1	1
Other investments		19		19	19
Other receivables	2			2	2
Current financial assets					
Trade receivables	920			920	920
Trade receivables for sale		2		2	2
Derivatives		15	22	37	37
Other financial receivables	4			4	4
Cash and cash equivalents	652*	265		919	919
Carrying amount by measurement category	1,608	302	22	1,934	1,934
Non-current financial liabilities					
Interest-bearing debt	1,129			1,129	1,139
Derivatives		19	6	25	25
Current financial liabilities					
Interest-bearing debt	198			198	198
Trade payables	411			411	411
Derivatives		1	2	3	3
Other financial liabilities	4			4	4
Carrying amount by measurement category	1,743	20	8	1,770	1,780

* In addition, the Group has cash and cash equivalents measured at amortised cost of EUR 14 million related to assets held for sale.

2019

MEUR	Measured at amortised cost	At fair value through the statement of income	At fair value through other comprehensive income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets					
Interest-bearing investments		1		1	1
Trade receivables	19			19	19
Derivatives		5		5	5
Other investments		18		18	18
Other receivables	2			2	2
Current financial assets					
Trade receivables	1,232			1,232	1,232
Trade receivables for sale		4		4	4
Derivatives		5	14	18	18
Other financial receivables	6			6	6
Cash and cash equivalents	343*	15		358	358
Carrying amount by measurement category	1,600	48	14	1,662	1,662
Non-current financial liabilities					
Interest-bearing debt	997			997	1,005
Derivatives		14	2	16	16
Current financial liabilities					
Interest-bearing debt	99			99	99
Trade payables	624			624	624
Derivatives		1	6	7	7
Other financial liabilities	4			4	4
Carrying amount by measurement category	1,724	15	8	1,747	1,756

* In addition, the Group has cash and cash equivalents measured at amortised cost of EUR 11 million related to assets held for sale.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Fair value hierarchy

Accounting principles

Wärtsilä uses the following categorisation for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: The quoted prices for the financial instruments are directly and regularly available on active publicly traded markets or other publicly available sources.

Level 2: The prices for the financial instruments are determined by using a valuation method for which the input data is directly or indirectly available on a publicly traded markets or other publicly available sources.

Level 3: The financial instruments are categorised into level 3 fair value if the prices for the inputs of the valuation method are not publicly available, and when the financial instruments are measured using an independent valuation method.

Specific valuation techniques used to value financial instruments include:

- the fair value of forward foreign exchange contracts is determined by using forward rates at the closing date
- the fair value of interest rate swaps is calculated as being the present value of the estimated future cash flows based on observable yield curves
- the use of quoted market prices or dealer quotes for similar instruments

MEUR	2020		2019	
	Level 2	Level 3	Level 2	Level 3
Financial assets				
Other investments		19		18
Interest-bearing investments, non-current	1		1	
Other receivables, non-current	2		2	
Derivatives	37		24	
Financial liabilities				
Interest-bearing debt, non-current*	1,139		1,005	
Derivatives	27		23	

* Measured at amortised cost in the statement of financial position.

Additional information on financial liabilities is presented in Note 5.6. Maturity analysis of financial liabilities.

Other investments

Other investments include unlisted shares carried at fair value. These investments are valued using certain DCF models where critical assumptions relate to WACC level and expected cash flows from future dividends. However, the results from different scenarios vary a lot. The management therefore considers that the valuation at amortised cost is the best estimate of fair value.

MEUR	2020	2019
Carrying amount on 1 January	18	16
Acquired shares	1	2
Carrying amount on 31 December	19	18

In 2020, the cost for other unlisted shares (level 3) was EUR 19 million (18), and the market value of them was EUR 19 million (18).

5.3. CASH AND CASH EQUIVALENTS

Accounting principles

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other short-term cash investments. Other short-term cash investments are highly liquid investments that are subject to only minor fluctuations in value, and which have a maturity of up to three months on the date of acquisition. Cash in hand and deposits held at call are presented at amortised cost. Other cash investments are mainly measured at fair value, except for commercial paper investments that are presented at amortised cost. Credit accounts related to Group cash pool accounts are included in current financial liabilities.

MEUR	2020	2019
Cash and bank balances*	628	343
Cash equivalents	290	15
Total	919	358

* EUR 175 million (171) of cash and bank balances relate to cash in countries where repatriation is limited due to local regulation and, consequently, the cash is not immediately available to the parent company.

In addition, the Group has cash and cash equivalents of EUR 14 million (11) related to assets held for sale.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

5.4. NET DEBT RECONCILIATION

Net interest-bearing debt

MEUR	2020	2019
Interest-bearing debt, non-current	1,005	851
Lease liabilities, non-current	124	146
Interest-bearing debt, current	156	58
Lease liabilities, current	42	42
Total interest-bearing liabilities	1,327	1,096
Interest-bearing receivables	-1	-1
Cash and cash equivalents	-919	-358
Cash and cash equivalents pertaining to assets held for sale	-14	-11
Total interest-bearing assets	-933	-370
Total net interest-bearing debt	394	726

Net debt reconciliation 2020

MEUR	Carrying amount on 1 January 2020	Cash flows	Changes in exchange rates	Other non-cash movements	Acquisitions and disposals	Carrying amount on 31 December 2020
Interest-bearing debt, non-current	851	155				1,005
Interest-bearing debt, current	58	121	-14		-8	156
Lease liabilities	188	-49	-6	34	-1	166
Interest-bearing receivables	-1		1			-1
Cash and cash equivalents*	-369	-601	22		16	-932
Net debt	726	-374	3	34	8	394

* Includes cash and cash equivalents pertaining to assets held for sale

2019

MEUR	Carrying amount on 1 January 2019	Cash flows	Changes in exchange rates	Other non-cash movements	Carrying amount on 31 December 2019
Interest-bearing debt, non-current	746	104			851
Interest-bearing debt, current	73	-11	-5		58
Lease liabilities	215	-52		26	188
Interest-bearing receivables	-3	2			-1
Cash and cash equivalents	-487	119			-369*
Net debt	545	162	-5	26	726

* Includes cash and cash equivalents pertaining to assets held for sale.

5.5. EQUITY

Equity consists of share capital, share premium, translation differences, fair value reserve, remeasurements of defined benefit liabilities and retained earnings.

Share capital and number of shares

MEUR	Number of shares and votes	Share capital	Share premium	Total
Share capital				
1 January 2019	591,723,390	336	61	397
31 December 2019	591,723,390	336	61	397
31 December 2020	591,723,390	336	61	397

Wärtsilä's share does not have a nominal value. Wärtsilä has one series of shares. Each share is assigned one vote in the Annual General Meeting and has an equal right to dividend.

Share Capital

The subscription price of a share received by the company in connection with share issues is credited to the share capital, unless it is provided in the share issue decision that a part of the subscription price is to be recorded in the fund for invested non-restricted equity.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Share Premium

Share premium is restricted equity. It may be reduced in accordance with the rules applying to decreasing share capital in accordance with the Finnish Limited Liability Companies Act. It can also be used to increase the share capital.

Translation differences

Translating foreign subsidiaries' financial statements by using different exchange rates in the statement of comprehensive income and in the statement of financial position causes translation differences, which are recognised in equity. Translation differences of foreign subsidiaries' acquisition cost eliminations and post-acquisition gains and losses are also presented in equity. Also, translation differences arising from subsidiary net investments and non-current subsidiary loans without agreed settlement dates are presented in equity. The change in translation differences is recognised in other comprehensive income.

Fair value reserve

Fair value reserve includes the changes in fair value of derivative financial instruments, if the hedging is effective and eligible for hedge accounting. The changes in items included in fair value reserve are recognised in other comprehensive income.

In 2020, EUR -4 million (4) of fair value adjustments related to cash flow hedges was recognised in equity. EUR 6 million (19) of the fair value adjustments was transferred from equity to the statement of income as net sales or operating expenses during 2020.

MEUR	Cash flow hedges
Fair value reserve on 1 January 2019	-39
Taxes related to fair value adjustments	8
Fair value reserve on 1 January 2019	-31
Transferred to the statement of income, net of taxes	16
Fair value adjustments	4
Fair value reserve on 31 December 2019	-11
Transferred to the statement of income, net of taxes	5
Fair value adjustments	-4
Taxes related to fair value adjustments	1
Fair value reserve on 31 December 2020	-9

Parent company's distributable funds

Accounting principles

The dividend proposed by the Board of Directors is deducted from distributable equity when approved by the company's Annual General Meeting. Unpaid dividends are presented as liability in the consolidated financial statements.

After the balance sheet date, the Board of Directors proposed that a dividend of EUR 0.20 per share be paid for the financial period 2020, the total dividend payable being EUR 118 million. The remaining part of the retained profits will be carried further in the unrestricted equity. For the profit for the financial period 2019, a dividend of EUR 0.48 per share was distributed, totalling EUR 284 million, and the rest of the retained profits were carried further in the unrestricted equity.

Additional information on equity is presented in Notes to the parent company financial statements, in Note 10. Shareholders' equity.

5.6. MATURITY ANALYSIS OF FINANCIAL LIABILITIES

2020

MEUR	Non-current				Total
	Current < 1 year	1-3 years	3-5 years	> 5 years	
Loans from other financial institutions*	155	481	232	292	1,160
Lease liabilities	45	59	35	51	190
Other interest-bearing debt*	1				1
Trade payables	411				411
Derivatives**	13	5	2	7	27
Other liabilities	4				4
Total	629	545	270	350	1,794
* Estimated interest expenses, total	8	11	6	2	28
Estimated contractual cash flows	637	557	276	353	1,822

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2019

MEUR	Current		Non-current		Total
	< 1 year	1–3 years	3–5 years	> 5 years	
Loans from other financial institutions*	56	263	258	328	906
Lease liabilities	48	65	37	64	215
Other interest-bearing debt*	2				2
Trade payables	624				624
Derivatives**	7	10	5	2	23
Other liabilities	4				4
Total	741	339	301	392	1,774
* Estimated interest expenses, total	8	12	8	3	31
Estimated contractual cash flows	748	351	309	395	1,804

** Valuation for derivatives with negative market value by maturity date. Nominal contractual amounts are presented in Note 5.7. Derivative financial instruments.

Interest expenses for long-term loans are calculated by using the average interest rate prevailing on 31 December 2020.

Fair values of financial liabilities are presented in Note 5.2. Financial assets and liabilities by measurement category. Information on measurement categories of financial liabilities in Note 5.2. Financial assets and liabilities by measurement category.

5.7. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting principles

Derivatives and hedge accounting

Derivatives are initially recognised on the statement of financial position at fair value and are subsequently classified and measured at their fair value at the end of each reporting period. Gains and losses from the fair value measurement are recognised in the statement of income as determined by the purpose of the derivatives.

Hedge accounting

Wärtsilä hedges its sales and purchases in foreign currencies with foreign exchange forwards

or currency options, and Wärtsilä applies hedge accounting according to IFRS 9 to the majority of these foreign exchange forwards. Forward points are excluded from the hedge relationship, and in case of a hedge being fully or partially ineffective, the ineffective portion is immediately recognised in the financial items for the reporting period. Wärtsilä may also apply cash flow hedging to some of its interest rate derivatives.

The Group documents the relationship between each hedging instrument and the hedged item upon entering into a hedging arrangement, along with the risk management objective and the strategy applied. Through this process, the hedging instrument is linked to the relevant assets and liabilities, projected business transactions, or binding contracts.

Wärtsilä designates its hedge relationships of foreign exchange hedges as either hedges of highly probable forecast transactions or firm commitments.

The Group uses a hedge designation for foreign exchange hedging, where critical terms match or are closely aligned between the hedging instrument and the hedged item. The hedge ratio is typically 100%. Since underlying risks match, hedging instruments are considered to offset any changes related to the hedged transactions. Wärtsilä recognises that potential sources of ineffectiveness arise when hedged transactions are delayed or cancelled. However, Wärtsilä applies a roll-forward strategy where derivatives are roll-forwarded or terminated early to match these underlying transactions. Hedge effectiveness requirements are assessed in accordance with IFRS 9 requirements, including requirements for economic relationship, credit risk and hedge ratio.

External hedges are typically made for short maturities (up to 1 year) and only high credit quality (A- minimum rating requirement) counterparties are utilised. Counterparty credit risk is expected to have minimal effect on hedge valuations. Due to some underlying hedged cash flows having longer maturities than related hedges, the changes in present value of the hedge and the underlying cash flow do not always fully offset each other during the lifetime of a hedge. This ineffectiveness is calculated on a quarterly basis and booked in financial items at Group level.

Cash flow hedge

Changes in the fair value of derivative contracts designated and qualifying as cash flow hedges are recognised in other comprehensive income and presented in the fair value reserve in equity, provided that the hedging is effective. In the case of foreign exchange forwards, the spot element is included for the hedging relationship where forward points have been excluded from the hedge designation. Any gain or loss in the fair value reserve related to derivatives accumulated through other comprehensive income is reported in

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

the statement of income in the same period as any transactions relating to the hedged obligations or estimates, for example as an adjustment to net sales or material and services. The ineffective portion is immediately recognised in the financial items in the statement of income for the reporting period. Changes in fair value of foreign exchange derivatives due to interest rate differences are recognised in the statement of income.

More information on fair value adjustments related to cash flow hedges is presented in Note 5.5. Equity, and more information on the ineffective portion of cash flow hedges is presented in Note 5.1. Financial income and expenses. The Group applies hedge accounting to significant foreign currency forward contracts.

The Group applies hedge accounting to the majority of its foreign currency forward contracts.

The open operative currency positions including financing are hedged by using derivative financial instruments according to the table below.

Foreign exchange forwards

MEUR	2020		2019	
	Against fixed sales and purchase contracts	Against net loans	Against fixed sales and purchase contracts	Against net loans
Currency forwards				
USD	292	287	614	356
NOK	396	1	451	41
CHF	22	61	31	103
CNY	15	12	107	13
AUD		47	1	52
MXN	46	5	47	2
SGD		11	8	31
SEK	25	1	26	
CAD	20	11	13	11
Other currencies*	120	1	67	7
Total net amount of currency derivatives	936	437	1,364	616

* Other currencies do not include any material single currencies.

Net loans include non-euro intragroup loans and deposits given by the parent company.

IFRS hedge accounting has been applied to EUR 1,861 million (2,448) currency forwards. A 5% change in the exchange rates would cause from these currency forwards an approximately EUR 45 million (74) impact on the equity. As all material fixed sales and purchase contracts are hedged, the profit and loss sensitivity of foreign exchange from operations (excluding internal financing) is considered minimal.

MEUR	Gross amount	Net amount	2020 Equity impact	Gross amount	Net amount	2019 Equity impact
Both legs of currency forwards under hedge accounting*						
EUR	1,424	123	6	1,772	83	
USD	1,077	295	15	1,332	640	32
NOK	803	248	12	1,202	509	25
GBP	79	57	3	128	34	2
MXN	128	46	2	132	47	2
CNY	50	40	2	110	104	5
JPY	26	2		50	31	2
CHF	18	8		38	28	1
Other currencies	116	81	4	108	74	4
Total (single leg)	1,861	900	45	2,435	776	73

* Intragroup transactions, on which the actual hedge accounting bookings are based.

MEUR	2020	2019
External currency forwards under hedge accounting by year		
2020	-	1,769
2021	1,010	-
Hedged highly probable forecasted cash flows by year		
2020	-	1,977
2021	1,341	193
2022	233	71
2023	50	31
2024	45	176*
2025-	192	-

* Includes 2024 and later for comparison period.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Derivatives

MEUR	2020	of which closed	2019	of which closed
Nominal values of derivative financial instruments (level 2)				
Interest rate swaps	450		400	
Cross currency swaps	237		246	
Currency forwards, included in hedge accounting	1,010	558	1,769	873
Currency forwards, no hedge accounting	650	245	597	213
Total	2,347	803	3,012	1,086
Fair values of derivative financial instruments (level 2)				
Interest rate swaps	-12		-7	
Cross currency swaps	-12		-4	
Currency forwards, included in hedge accounting	21		8	
Currency forwards, no hedge accounting	14		4	
Total	10			

In addition, the Group had copper futures and swaps amounting to 113 tons (173) valued at EUR 1 million (1).

Foreign currency forward contracts are against transactional risks and fall due during the following 12 months (12). A currency forward is considered closed when there are offsetting cash flows in the same currency with the same value date. Interest rate swaps are denominated in euros and their average maturity is 59 months (69). The average maturity for cross currency swaps is 30 months (41).

Changes in the market value of interest rate derivatives are usually immediately recognised in the statement of income. However, cash flow hedge accounting in accordance with IFRS 9 is applied to a EUR 130 million (130) amortising interest rate swap maturing in 2031. The interest rate hedge swaps variable interest payments of a large lease agreement, to fixed interest payments. As the hedge and the underlying cash flow have matching critical terms, the hedge ratio is 1:1 and the hedge is expected to be 100% effective. In 2020, a EUR -6 million (2) fair value adjustment related to cash flow hedge was recognised in equity, and no amounts have been reclassified to profit and loss.

Wärtsilä does not see any significant increase in counterparty credit risk to outstanding derivatives due to COVID-19 pandemic, as only high credit quality counterparties have been used. Derivatives under hedge accounting are expected to remain effective, as there has been no significant increase in the cancellations of orders. The hedged cash flows are still considered to be highly probable.

Normally all of the Groups' derivatives are carried out according to International Swaps and Derivatives Association's Master Agreements (ISDA). In case of an event of default under these agreements, the non-defaulting party may request early termination and set-off of all outstanding transactions. These agreements do not meet the criteria for offsetting in the statement of financial position. The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

MEUR	2020	2019
Gross fair values of derivative financial instruments subject to ISDAs		
Assets		
Cross currency swaps	1	5
Currency forwards	37	18
Total	37	24
Liabilities		
Interest rate swaps	-12	-7
Cross currency swaps	-13	-9
Currency forwards	-3	-7
Total	-27	-23
Net fair values of derivative financial instruments subject to ISDAs		
Assets	25	8
Liabilities	-16	-8
Total	10	

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

5.8. FINANCIAL RISKS

General

Wärtsilä has a centralised Group Treasury, which has two main objectives: 1) to arrange adequate funding for the Group's underlying operations on competitive terms and 2) to identify and evaluate the financial risks within the Group and implement the hedges for the Group companies.

The objective is to hedge against unfavourable changes in the financial markets and to minimise the impact of foreign exchange, interest rate, credit, and liquidity risks on the Group's cash reserves, profits, and shareholder equity.

The Financial Risk Policy is approved by the Board of Directors. The Group Treasury employs only such instruments whose market value and risk profile it can reliably monitor.

Foreign exchange risk

Foreign exchange exposures are monitored at the Business level, hedged at company level against the Group Treasury, and then netted and covered externally at Group level by the Group Treasury. All material fixed sales and purchase contracts, including both future cash flows and related accounts receivable and payable, are hedged. The estimated future commercial exposures are evaluated by the Businesses, and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS 9 is applied to most of the hedges of these exposures. The hedges cover 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 position of the statement of financial position, which includes cash balances, loans/deposits, as well as other receivables and payables denominated in foreign currencies.

As field service work is invoiced in local currencies, there is some foreign exchange change related volatility in the consolidated net sales. However, the effect on the profitability is limited as the related costs are in the same currency. Spare part sales are based on a euro price list and related purchases in non-euro currencies are hedged, so the effect from foreign currency rate changes on spare part sales is minimal. As project/hardware sales/purchases, as well as estimated currency exposures from long-term agreements, are hedged, the Group does not expect significant gains/losses from foreign exchange rate changes in 2021 related to its operations, excluding internal financing.

The instruments, and their nominal values, used to hedge the Group's foreign exchange exposures are listed in Note 5.7. Derivative financial instruments.

Since Wärtsilä has subsidiaries and joint ventures outside the euro zone, the Group's equity, goodwill and purchase price allocations are sensitive to exchange rate fluctuations. At the end of 2020, the net assets of Wärtsilä's foreign subsidiaries and joint ventures outside the euro zone totalled EUR 956 million (1,041). In addition, goodwill and purchase price allocations from acquisitions nominated in foreign currencies amounted to EUR 865 million (926). In 2020, the translation differences recognised in other comprehensive income mainly come from changes in the GBP exchange rate.

Approximately 65% (67) of sales and 61% (59) of operating costs were denominated in euros, and approximately 20% (20) of sales and 11% (10) of operating costs were denominated in US dollars. The remainder was split between several currencies. The Group's profits and competitiveness are also indirectly affected by the home currencies (USD, GBP, JPY and KRW) of its main competitors.

As Wärtsilä's operations are global, they often involve currency risks. The largest operative currency positions (excluding financing) open as of 31 December 2020 by currency pair are listed below.

2020

MEUR	Statement of financial position		Estimated cash flows		Net
	Base currency received	Base currency paid	Base currency received	Base currency paid	
EUR/USD	42	53	147	303	167
EUR/NOK	61	30	281	1	310
USD/NOK	30		231	3	259
EUR/CNY	13	20	65	4	63
EUR/GBP	18	20	89		88
EUR/SGD	16	11	20		26
EUR/JPY	13	6	18	3	22

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2019

MEUR	Statement of financial position		Estimated cash flows		Net
	Base currency received	Base currency paid	Base currency received	Base currency paid	
EUR/USD	77	152	338	512	249
EUR/NOK	119	48	304	17	358
USD/NOK	50	14	72		108
EUR/CNY	32	26	70		76
EUR/GBP	24	18	8	71	56
EUR/JPY	11	7	9	25	12

As the main funding currency for the Group, including the Group Treasury, is the euro and since the subsidiaries are normally funded in their home currencies by the Group Treasury, the Group Treasury had the following related open currency positions as of 31 December 2020.

MEUR	2020			2019		
	Loans	Deposits	Net	Loans	Deposits	Net
Intragroup loans/deposits						
USD	15	282	266	35	391	356
GBP	68	60	9	48	93	46
CHF	61		61	103		103
AUD		49	49		52	52
NOK		1	1		41	41
SGD		19	19	1	32	31
CNY		12	12		13	13
CAD		11	11		11	11
Other currencies*	6	1	7	2	5	7
External loans/deposits						
JPY	237**		237	246**		246
USD		20	20			
Total	388	455	692	435	639	906

* The other currencies do not net as they are of different currencies.

** External JPY loans are fully hedged with cross currency swaps.

Some Group companies in countries whose currencies are not fully convertible, such as Argentina, Brazil, and Indonesia, have unhedged, intercompany loans nominated either in EUR or USD, which may result in some foreign exchange differences. The total amount of these loans is EUR 66 million (192).

Wärtsilä does not hedge translation risk. The most significant currencies for Wärtsilä are presented in Note 6.6. Exchange rates.

Interest rate risk

Wärtsilä is exposed to interest rate risk primarily through market value changes to the net debt portfolio (price risk), as well as through changes in interest rates (re-fixing on rollovers). Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis.

Interest-bearing loan capital at the end of 2020 totalled EUR 1,161 million (908). The average interest rate was 0.8% (0.9) and the average re-fixing time 13 months (21).

Wärtsilä spreads its interest rate risk exposure by taking both fixed and floating rate loans. The share of fixed rate loans as a proportion of the total debt can vary between 30 and 70%. The Board of Directors has given authorisation to temporarily increase the share of fixed loans up to 100%, and the authorisation is valid until January 2022. Wärtsilä hedges its loan portfolio by using derivative instruments, such as interest rate swaps, futures and options.

MEUR	2020	2019
Fixed rate loans	366	406
Floating rate loans	796	503
Derivatives	424	424
Share of fixed rate loans of total loans (including derivatives), %	68	91

At the end of 2020, a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 26 million (28) increase/decrease in the value of the net debt portfolio, including derivatives. A one percentage point change in the interest level would cause a EUR 4 million (1) change in the following year's interest expenses from the debt portfolio, including derivatives.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Additional information related to loans can be found in Note 5.2. Financial assets and liabilities by measurement category and Note 5.6. Maturity analysis of financial liabilities. Information on interest rate derivatives is presented in Note 5.7. Derivative financial instruments.

Liquidity and refinancing risk

Wärtsilä ensures sufficient liquidity at all times by efficient cash management and by maintaining sufficient available committed and uncommitted credit lines. Refinancing risk is managed by having a balanced and sufficiently long loan portfolio.

Due to the COVID-19 pandemic, the liquidity reserves of the Group have been strengthened. The Revolving Credit Facilities (RCF) having maturity dates in 2020 were extended until the end of 2021, and their total amount was increased by EUR 20 million. The total amount of available RCFs, EUR 660 million, is fully unutilised. Other COVID-19 related funding arrangements resulted in disbursement of new long-term loans totalling EUR 190 million. As of 31 December 2020, the Group's liquidity reserves were at high level and the liquidity position is expected to remain strong during 2021.

The existing loan facilities include:

- Committed Revolving Credit Facilities totalling EUR 660 million (640).
- Finnish Commercial Paper programmes totalling EUR 850 million (800).

The average maturity of the non-current debt is 36 months (46) and the average maturity of the confirmed credit lines is 21 months (30). Additional information in Note 5.6. Maturity analysis of financial liabilities.

At year-end, the Group had cash and cash equivalents totalling EUR 932 million (369), of which EUR 14 million (11) is related to assets held for sale, as well as EUR 660 million (640) of non-utilised committed credit facilities. Commercial Paper Programmes were not utilised on 31 December 2020 nor on 31 December 2019.

Committed Revolving Credit Facilities, as well as the parent company's long-term loans, include a financial covenant (solvency ratio). The solvency ratio is expected to remain clearly over the covenant level for the foreseeable future.

Revolving Credit Facilities

MEUR	2020		2019	
Year	Maturing	Available (end of period)	Maturing	Available (end of period)
2019	-	-		640
2020		660	130	510
2021	280	380	130	380
2022	90	290	90	290
2023	160	130	160	130
2024	130		130	

Credit risk

Responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group companies. Major trade and project finance credit risks are minimised by transferring risks to banks, insurance companies, and export credit organisations.

The credit risks related to the placement of liquid funds and to trading in financial instruments are minimised by setting explicit limits for the counterparties, and by making agreements only with the most reputable domestic and international banks and financial institutions. As only high credit quality (A- minimum rating requirement) counterparties are utilised for derivative financial instruments, and the transactions are made under ISDA Master Agreements, no credit losses are expected from these instruments.

The Group companies deposit the maximum amount of their liquid financial assets with the centralised treasury when local laws and central bank regulations allow it. The Group's funds are placed in instruments with sufficient liquidity (current bank deposits or Finnish Commercial Papers) and rating (at least single-A rated instruments or other instruments approved by the Group's CFO). These placements are constantly monitored by the Group Treasury, and Wärtsilä does not expect any future defaults from the placements.

The expected credit losses associated with investments carried at amortised cost are assessed on a forward-looking basis based on investment maturity dates, and counterparty credit risk on a quarterly basis. As of 31 December 2020, the expected credit loss was not material.

The expected credit losses are presented in Note 4.2. Trade receivables and contract assets and liabilities.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. **Capital structure and financial items**
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Equity price risk

Wärtsilä has equity investments totalling EUR 12 million (14) in power plant companies, most of which are located in developing countries and performing well according to expectations. Additional information is given in Note 5.2. Financial assets and liabilities by measurement category.

Capital risk management

Wärtsilä's policy is to secure a strong capital base, both to maintain the confidence of investors and creditors and for the future development of the business. The capital is defined as total equity, including non-controlling interests and net interest-bearing debt. The target for Wärtsilä is to maintain gearing below 0.50 and to pay a dividend of at least 50% of earnings over the cycle.

MEUR	2020	2019
Interest-bearing debt, non-current	1,005	851
Lease liabilities, non-current	124	146
Interest-bearing debt, current	156	58
Lease liabilities, current	42	42
Total interest-bearing liabilities	1,327	1,096
Interest-bearing receivables	-1	-1
Cash and cash equivalents	-919	-358
Cash and cash equivalents pertaining to assets held for sale	-14	-11
Total interest-bearing assets	-933	-370
Total net interest-bearing debt	394	726
Total equity	2,188	2,410
Gearing	0.18	0.30
In the capital management Wärtsilä also follows the gearing development:		
Equity and liabilities	6,232	6,398
Advances received	-452	-452
	5,780	5,946
Solvency ratio, %	38.1	40.8

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
- 6. Group structure**
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

6. GROUP STRUCTURE

6.1. ACQUISITIONS

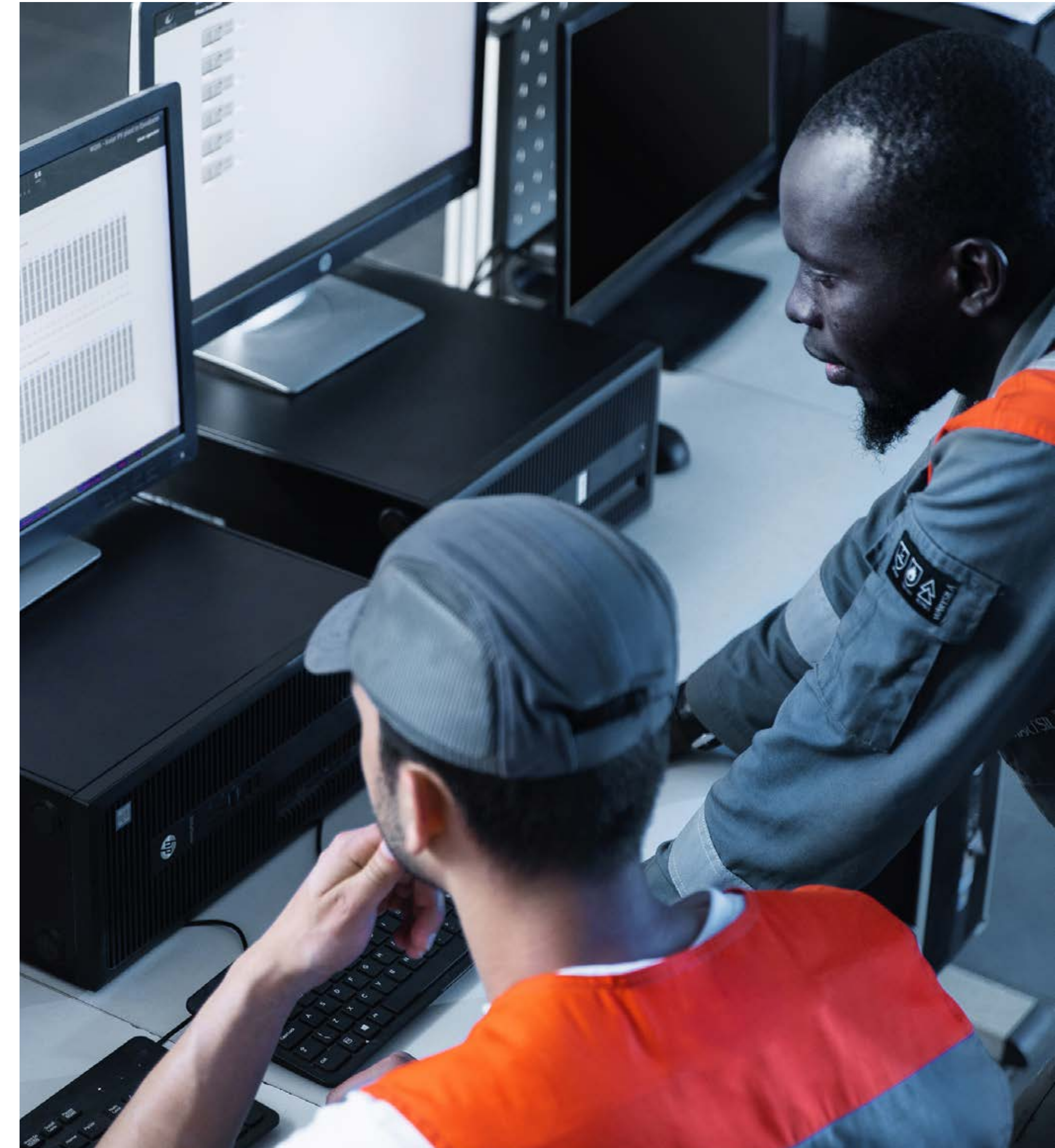
Accounting principles

Acquired and established companies are accounted for using the acquisition method. Accordingly, the purchase price and the acquired company's identifiable assets, liabilities, and contingent liabilities are measured at fair value on the date of acquisition. In the acquisition of additional interest, where the Group already has control, the non-controlling interest is measured either at fair value or at the non-controlling interests' proportionate share of the identifiable net assets. The difference between the purchase price, possible equity belonging to the non-controlling interests, and the acquired company's net identifiable assets, liabilities and contingent liabilities measured at fair value, is goodwill. Goodwill is tested for impairment at least annually. The purchase price includes the consideration paid, measured at fair value. The consideration does not include transaction costs, which are recognised in the statement of income. The transaction costs are expensed in the same reporting period in which they occur, except those costs resulting from issued debt or equity instruments.

In significant business combinations, the Group has used external advisers when estimating the fair values of property, plant and equipment and intangible assets. For property, plant and equipment, comparisons have been made of the market prices of similar assets, and the depreciation of the acquired assets due to ageing, wear, and other similar factors has been estimated. The fair value measurement of intangible assets is based on estimates of the future cash flows associated with the assets. The acquired identifiable intangible assets typically include technology, customer relationships, and trademarks.

Any contingent consideration (additional purchase price) related to the combination of businesses is measured at fair value on the date of acquisition. It is classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair value on the last day of each reporting period, and the resulting loss or gain is recognised through the statement of income. Contingent consideration classified as equity is not re-measured.

The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control.



BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
- 6. Group structure**
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

⚠ Accounting estimates and judgements

Accounting for the business combinations may require estimates of the fair value of acquired assets and the expected amount of realised contingent consideration.

2020

In 2020, there were no acquisitions.

2019

Ships Electronic Services Ltd

In May, Wärtsilä acquired 100% of Ships Electronic Services Ltd ("SES"), a UK-based company specialising in navigation and communication electronics, installation, maintenance and repair services, mainly for commercial and leisure vessels. SES' turnover was approximately GBP 10 million and the company employed a staff of 47. The enterprise value of the transaction was GBP 3.2 million.

The consideration paid and the impact on profit for the financial period were not significant.

6.2. DISPOSALS

📄 Accounting principles

The disposed subsidiaries are included in the consolidated financial statements until the control ends.

2020

In October 2020, Wärtsilä divested the shares in Wärtsilä JOVYATLAS GmbH to Jacob Waitz Industrie GmbH. Wärtsilä JOVYATLAS has been manufacturing UPS systems, rectifiers, power inverters, frequency transformers and resistors with related services for many industries already for seven decades. In 2019, its net sales were EUR 20 million. The impact of the divestment on the profit for the financial period is approximately EUR -6 million.

Also, in October 2020, Wärtsilä divested the shares in Wärtsilä Valves Ltd to an affiliate of Evergreen Capital L.P. Wärtsilä Valves' activities included the engineering, assembly, testing, sales, and delivery of nickel aluminium bronze (NAB) and duplex valves for marine, oil & gas and energy markets. It also offers applications for Valves' products, including, for example, FPSO, petrochemical facilities, power generation, LNG, naval marine, marine services, waste water treatment plants and pipelines. The annual net sales were approximately EUR 15 million in 2019. The impact of the divestment on the profit for the financial period is approximately EUR -10 million.

In December 2020, Wärtsilä finalised the divestment of shares in Wärtsilä ELAC Nautik GmbH (ELAC Nautik) to Cohort plc. The divestment was originally announced in December 2019. ELAC Nautik's main market focus was hydroacoustic products, including sonars, underwater communication systems, and echo systems for small and medium sized military submarines. The annual net sales were approximately EUR 21 million in 2019. The impact of the divestment on the profit for the financial period is not significant.

All businesses disposed belonged to Portfolio Business.

2019

In 2019, there were no disposals.

6.3. ASSETS HELD FOR SALE

📄 Accounting principles

Non-current assets and assets and liabilities related to discontinued operations are classified as held for sale if their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Classification as held for sale requires that the following criteria are met; the sale is highly probable, the asset is available for immediate sale in its present condition subject to usual and customary terms, the management is committed to the sale, and the sale is expected to be completed within one year from the date of classification.

Prior to classification as held for sale, the assets or assets and liabilities related to a disposal group in question are measured according to the respective IFRS standards. From the date of classification, non-current assets held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and the recognition of depreciation and amortisation is discontinued.

Non-current assets held for sale are presented in the statement of financial position separately from other items. The comparison figures for the statement of financial position are not restated.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. **Group structure**
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2020

Wärtsilä has classified Entertainment and Tank Control businesses as assets held for sale. Entertainment business has been classified as assets held for sale since the fourth quarter of 2019 and Tank Control business since the second quarter of 2020. Completion of the transactions are expected in the first half of 2021.

Additionally, Wärtsilä has started preparations to divest Wärtsilä EUROATLAS GmbH, which is also classified as assets held for sale. Completion of the transaction is expected during the second half of 2021. The impact on the profit for the financial period is approximately EUR -6 million.

All assets held for sale belong to Portfolio Business and they are valued at the lower of book value or fair value.

2019

In December, Wärtsilä announced the divestment of shares in Wärtsilä ELAC Nautik GmbH (ELAC Nautik) to Cohort plc. ELAC Nautik's main market focus is on hydroacoustic products, including sonars, underwater communication systems and echo systems for small and medium sized military submarines.

Wärtsilä, through its Smart Marine Ecosystem approach, is leading the marine industry's transition into a new era of high efficiency, greater safety, and outstanding environmental performance. As this is Wärtsilä's core strategy for Marine Business, and ELAC Nautik's business has no clear synergistic link to Wärtsilä's Smart Marine activities in transforming the marine sector, Wärtsilä's portfolio is being aligned to those growth businesses that can drive this transition.

Additionally, Wärtsilä has started preparations to divest its Entertainment business, which is also classified as assets held for sale.

The assets held for sale belong to the Wärtsilä Marine Business segment and they are valued at the lower of book value or fair value.

Subject to approvals, completion of these transactions is expected in the early part of 2020.

Items on statement of financial position

MEUR	31.12.2020	31.12.2019
Goodwill	7	
Other intangible assets	1	
Property, plant and equipment	4	3
Right-of-use assets	2	4
Deferred tax assets	12	8
Inventories	23	18
Other receivables, current	42	39
Cash and cash equivalents	14	11
Assets held for sale	105	82
Write-down of assets	-6	
Net for assets held for sale	99	82
Interest-bearing debt, non-current		4
Deferred tax liabilities	12	8
Other liabilities, non-current	3	8
Other liabilities, current	52	47
Liabilities directly attributable to assets held for sale	68	68
Net assets	31	14

In 2020, the write-down of assets EUR -6 million, relates to the classification of Wärtsilä EUROATLAS GmbH as assets held for sale. The expense is recognised in depreciation, amortisation and impairment in the statement of income.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
- 6. Group structure**
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

6.4. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

 **Accounting principles**

Associated companies are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is established by contractual agreement.

Associated companies and joint ventures are included in the consolidated financial statements using the equity method from the date the Group's significant influence or joint control commences until the date it ceases. Investments in associates are initially recognised at cost, and the carrying amount is increased or decreased according to the Group's share of changes in the net assets of the associate after the date of the acquisition. The Group's share of the associated company's or joint venture's profit for the reporting period is shown as a separate item before the Group's operating result, on the line Share of result of associates and joint ventures. The Group's share of the associated company's or joint venture's changes recognised in other comprehensive income is recognised in the Group's other comprehensive income. Wärtsilä's proportion of the associated company's or joint venture's post-acquisition accumulated equity is included in the Group's equity. If the Group's share of the associated company's or joint venture's losses exceeds its interest in the company, the carrying amount is written down to zero. After this, losses are only recognised if the Group has incurred obligations from the associated company or joint venture.

The accumulated exchange rate differences arising from the consolidation of associated companies and joint ventures, which are recognised in equity, are recognised in the statement of income as part of the gain or loss when change in ownership occurs.

MEUR	2020	2019
Carrying amount on 1 January	42	66
Share of result	3	-9
Dividends	-1	-1
Translation differences	-2	-1
Reduction of share capital in associates and joint ventures	-28	
Impairment	9	-13
Carrying amount on 31 December	23	42

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
- 6. Group structure**
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Summary of financial information (100%): 2020

MEUR		Holding %	Non-current assets	Current assets	Equity	Non-current liabilities	Current liabilities	Net sales	Profit for the financial period
Joint ventures									
	Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	7	32	22	17	54	5
	Wärtsilä Hyundai Engine Co Ltd.	South Korea	0.0						-2
	CSSC Wärtsilä Electrical & Automation Co., Ltd.	China	49.0		4	2	2	19	
	CSSC Wärtsilä Engine (Shanghai) Co., Ltd.	China	49.0	21	73	20	74	66	1
	Repropel Sociedad de reparacao de helices	Portugal	50.0		2	1	1	1	

CSSC Wärtsilä Engine (Shanghai) Co., Ltd. manufactures medium and large bore medium speed diesel and dual-fuel engines at its factory in Lingang, Shanghai, China. Wärtsilä Hyundai Engine Co Ltd. manufactures Wärtsilä 50DF dual-fuel engines for LNG carriers and other marine applications in Mokpo, South Korea. Wärtsilä Qiyao Diesel Company Ltd. manufactures marine auxiliary engines in Shanghai, China. CSSC Wärtsilä Electrical & Automation Co., Ltd. manufactures advanced electrical and automation solutions for the cruise industry.

Wärtsilä Hyundai Engine Co Ltd. was disposed on 31 December 2020. During the financial period, Wärtsilä Land & Sea Academy, Inc. was liquidated, and the shares of Neptun Maritime AS were sold.

2019

MEUR		Holding %	Non-current assets	Current assets	Equity	Non-current liabilities	Current liabilities	Net sales	Profit for the financial period
Joint ventures									
	Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	7	32	19	20	30	2
	Wärtsilä Hyundai Engine Co Ltd.	South Korea	50.0	14	57	68	1	2	-21
	CSSC Wärtsilä Electrical & Automation Co., Ltd.	China	49.0		10	2	8	9	
	CSSC Wärtsilä Engine (Shanghai) Co., Ltd.	China	49.0	19	77	20	76	78	1
	Repropel Sociedad de reparacao de helices	Portugal	50.0		1	1		1	
Associated companies									
	Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0			-2	2		
	Neptun Maritime AS	Norway	40.0		1	1			

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. **Group structure**
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

6.5. SUBSIDIARIES

Accounting principles

The consolidated financial statements include the parent company Wärtsilä Corporation and all subsidiaries over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When the Group has less than a majority of voting or similar rights in an entity, the Group considers all relevant facts and circumstances in assessing whether it has power over an entity, including the contractual arrangements, voting rights, and potential voting rights. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to the elements of control.

The financial information from subsidiaries in countries with hyperinflation are adjusted according to IAS 29, when the impact of the hyperinflation is considered material for the consolidated financial statements.

Geographical area	Company name	Location	Activities	Share %
Europe	Wärtsilä Cyprus Limited	Cyprus	Sales and services	100.0
	Wärtsilä Danmark A/S	Denmark	Sales and services	100.0
	Wärtsilä Lyngsø Marine A/S	Denmark	Sales and services	100.0
	Wärtsilä Puregas Solutions A/S	Denmark	Sales and services	100.0
	Wärtsilä BLRT Estonia Oü	Estonia	Sales and services	51.7
	Eniram Oy	Finland	Sales and services	100.0
	Wärtsilä Finland Oy	Finland	Production, sales and services	100.0
	Wärtsilä Projects Oy	Finland	Sales and services	100.0
	Wärtsilä Solutions Oy	Finland	Sales and services	100.0
	Wärtsilä Technology Oy Ab	Finland	Holding	100.0
	Wärtsilä France S.A.S.	France	Sales and services	100.0
	Wärtsilä Voyage Mediterranean SAS	France	Sales and services	100.0
	Wärtsilä Deutschland GmbH	Germany	Sales and services	100.0
	Wärtsilä Funa International GmbH	Germany	Sales and services	100.0
Wärtsilä SAM Electronics GmbH	Germany	Sales and services	100.0	
Wärtsilä Voyage Germany GmbH	Germany	Sales and services	100.0	

Wärtsilä Serck Como GmbH	Germany	Sales and services	100.0
Wärtsilä Guidance Marine Ltd	the United Kingdom	Sales and services	100.0
Wärtsilä Puregas Solutions Ltd	the United Kingdom	Sales and services	100.0
Wärtsilä UK Ltd	the United Kingdom	Production, sales and services	100.0
Wärtsilä Voyage UK Limited	the United Kingdom	Sales and services	100.0
Ships Electronic Services Ltd	the United Kingdom	Sales and services	100.0
Greenham Regis Ltd	the United Kingdom	Sales and services	100.0
Wärtsilä Water Systems Ltd	the United Kingdom	Sales and services	100.0
Wärtsilä Defence Solutions Ltd	the United Kingdom	Sales and services	100.0
Wärtsilä Greece S.A.	Greece	Sales and services	100.0
Wärtsilä Hungary Kft	Hungary	Sales and services	100.0
Wärtsilä Voyage Investments Unlimited Company	Ireland	Sales and services	100.0
Transas New Building Limited	Ireland	Sales and services	100.0
Wärtsilä Voyage Limited	Ireland	Sales and services	100.0
Wärtsilä APSS Srl	Italy	Sales and services	100.0
Wärtsilä Italia S.p.A.	Italy	Production, sales and services	100.0
Trident Italia Srl	Italy	Sales and services	100.0
Wärtsilä Moss AS	Norway	Production, sales and services	100.0
Wärtsilä Norway AS	Norway	Production, sales and services	100.0
Wärtsilä Gas Solutions Norway AS.	Norway	Sales and services	100.0
Wärtsilä Valmarine AS	Norway	Sales and services	100.0
Wärtsilä Baltic Design Centre Sp.z.o.o.	Poland	Sales and services	100.0
Wärtsilä Polska Sp.z.o.o.	Poland	Sales and services	100.0
Wärtsilä Voyage Poland sp. z.o.o.	Poland	Sales and services	100.0
Wärtsilä Portugal S.A.	Portugal	Sales and services	100.0
Wärtsilä Vostok, LLC	Russia	Sales and services	100.0
Transas Navigator Ltd.	Russia	Sales and services	100.0

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

	Wärtsilä Digital Technologies, JSC	Russia	Sales and services	100.0
	Wärtsilä Ibérica S.A.	Spain	Production, sales and services	100.0
	Burriel Navarro S.L.	Spain	Sales and services	100.0
	Trident Las Palmas S.L.	Spain	Sales and services	100.0
	Wärtsilä Sweden AB	Sweden	Production, sales and services	100.0
	Wärtsilä Voyage Sweden AB	Sweden	Sales and services	100.0
	Wärtsilä Services Switzerland AG	Switzerland	Sales and services	100.0
	Quantiparts B.V.	The Netherlands	Sales and services	100.0
	Wärtsilä Netherlands B.V.	The Netherlands	Production, sales and services	100.0
	Trident B.V.	The Netherlands	Sales and services	100.0
	Wärtsilä Voyage Netherlands B.V.	The Netherlands	Sales and services	100.0
The Americas	Wärtsilä Argentina S.A.	Argentina	Sales and services	100.0
	Wärtsilä Brasil Ltda.	Brazil	Production, sales and services	100.0
	Wärtsilä Canada Inc.	Canada	Sales and services	100.0
	Wärtsilä Chile Ltda.	Chile	Sales and services	100.0
	Wärtsilä Colombia S.A.	Colombia	Sales and services	100.0
	Wärtsilä Dominicana Inc.	Dominican Republic	Sales and services	100.0
	Wärtsilä Ecuador S.A.	Ecuador	Sales and services	100.0
	Wärtsilä Guatemala S.A.	Guatemala	Sales and services	100.0
	Wärtsilä Operations Guyana Inc.	Guyana	Sales and services	100.0
	Wärtsilä de Mexico S.A. de C.V.	Mexico	Sales and services	100.0
	Wärtsilä Panama Services S.A.	Panama	Sales and services	100.0
	Wärtsilä Peru S.A.C.	Peru	Sales and services	100.0
	Wärtsilä Caribbean, Inc.	Puerto Rico	Sales and services	100.0
	Wärtsilä Uruguay S.A.	Uruguay	Sales and services	100.0
	American Hydro Corporation	USA	Sales and services	100.0
	Guidance Marine LLC	USA	Sales and services	100.0
	Wärtsilä Defence Inc.	USA	Sales and services	100.0
	Wärtsilä Dynamic Positioning Inc.	USA	Sales and services	100.0

	Wärtsilä North America, Inc.	USA	Sales and services	100.0
	LOCK-N-STITCH Inc.	USA	Sales and services	100.0
	Wartsila Voyage Americas Inc	USA	Sales and services	100.0
Asia	PT. Wärtsilä Indonesia	Indonesia	Sales and services	100.0
	Wärtsilä Azerbaijan LLC	Azerbaijan	Sales and services	100.0
	Wärtsilä Bangladesh Ltd.	Bangladesh	Sales and services	100.0
	Wärtsilä SAM Electronics (Taizhou) Co., Ltd.	China	Sales and services	100.0
	Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	Production, sales and services	100.0
	Wärtsilä Services (Shanghai) Co. Ltd.	China	Sales and services	100.0
	Wärtsilä Ship Design (Shanghai) Co., Ltd	China	Sales and services	100.0
	Wärtsilä Suzhou Ltd.	China	Production, sales and services	100.0
	Wärtsilä-CME Zhenjiang Propeller Co. Ltd.	China	Production, sales and services	55.0
	Wärtsilä Voyage (Shanghai) Co. Ltd.	Hong Kong	Sales and services	100.0
	Wärtsilä China Ltd.	Hong Kong	Sales and services	100.0
	Wärtsila India Private Ltd.	India	Production, sales and services	100.0
	Wärtsilä Japan Ltd.	Japan	Production, sales and services	100.0
	Wärtsilä Malaysia Sdn. Bhd.	Malaysia	Sales and services	100.0
	Wärtsilä Myanmar	Myanmar	Sales and services	100.0
	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	Sales and services	100.0
	Wärtsilä Philippines Inc.	Philippines	Sales and services	100.0
	Wärtsilä Doha L.L.C.	Qatar	Sales and services	100.0
	Wärtsilä Power Contracting Company Ltd.	Saudi Arabia	Sales and services	60.0
	Guidance Marine Pte Ltd	Singapore	Sales and services	100.0
	Wärtsilä Singapore Pte Ltd	Singapore	Sales and services	100.0
	Wärtsilä Voyage Pacific Pte Ltd	Singapore	Sales and services	100.0
	Wärtsilä Korea Ltd.	South Korea	Sales and services	100.0
	Wärtsilä Lanka (PVT) Ltd	Sri Lanka	Sales and services	100.0
	Wärtsilä Taiwan Ltd.	Taiwan	Sales and services	100.0
	Wärtsilä-Enpa A.S.	Turkey	Sales and services	51.0
	Wärtsilä Gulf FZE	United Arab Emirates	Sales and services	100.0

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
- 6. Group structure**
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

	Wärtsilä Hamworthy Middle East (FZE)	United Arab Emirates	Sales and services	100.0
	Wärtsilä LLC	United Arab Emirates	Sales and services	100.0
	Wärtsilä Ships Repairing & Maintenance LLC	United Arab Emirates	Sales and services	100.0
	Wärtsilä Voyage Middle East DMCEST	United Arab Emirates	Sales and services	100.0
	Wärtsilä (Vietnam) Company Limited	Vietnam	Sales and services	100.0
Other	Wärtsilä Australia Pty Ltd.	Australia	Sales and services	100.0
	Wärtsilä Burkina Faso	Burkina Faso	Sales and services	100.0
	Wärtsilä Central Africa Plc	Cameroon	Sales and services	100.0
	Wärtsilä Egypt Power S.A.E	Egypt	Sales and services	100.0
	Wärtsilä Central Africa Gabon	Gabon	Sales and services	100.0
	Wärtsilä West Africa Guinea S.A.	Guinea	Sales and services	100.0
	Wärtsilä Eastern Africa Limited	Kenya	Sales and services	100.0
	Wärtsilä Mauritania S.A.	Mauritania	Sales and services	100.0
	Wärtsilä Mocambique LDA	Mozambique	Sales and services	100.0
	Wärtsilä Muscat LLC	Oman	Sales and services	100.0
	Wärtsilä New Zealand Ltd	New Zealand	Sales and services	100.0
	Wärtsilä Marine & Power Services Nigeria Limited	Nigeria	Sales and services	100.0
	Wärtsilä PNG Ltd	Papua New Guinea	Sales and services	100.0
	Wärtsilä West Africa S.A.	Senegal	Sales and services	100.0
	Wärtsilä Southern Africa (Pty) Ltd.	South Africa	Sales and services	100.0
	Wärtsilä Tanzania Ltd	Tanzania	Sales and services	100.0
	Wärtsilä Uganda Ltd.	Uganda	Sales and services	100.0

Non-controlling interests are not significant in the Group's activities and cash flows in individual subsidiaries.

The list excludes subsidiaries, which do not have a significant impact on the profit or assets of the Group. A complete list of shares and securities in accordance with the Finnish Accounting Ordinance is included in the official financial statements of the parent company prepared in accordance with the Finnish Accounting Standards (FAS).

6.6. EXCHANGE RATES

Accounting principles

Translating the transactions in foreign currencies

The items included in the financial statements are initially recognised in the functional currency, which is defined for each Group company based on its primary economic environment. The presentation currency of the consolidated financial statements is the euro, which is also the functional and presentation currency of Wärtsilä Corporation.

Foreign subsidiaries

The income and expenses for statements of income and statements of comprehensive income of foreign subsidiaries are translated into euros at the quarterly average exchange rates. Statements of financial position are translated into euros at the exchange rates prevailing at the end of the reporting period. The translation of the profit for the reporting period and other comprehensive income using different exchange rates in the statement of comprehensive income and the statement of financial position causes translation differences, which are recognised in equity and in other comprehensive income as change. Translation differences of foreign subsidiaries' acquisition cost eliminations and post-acquisition profits and losses are recognised in other comprehensive income and are presented as a separate item in equity. The goodwill generated in the acquisition of foreign entities and their fair value adjustments of assets and liabilities are considered as assets and liabilities of foreign entities, which are translated into euros using the exchange rates prevailing at the end of the reporting period. When a foreign subsidiary is sold, the accumulated exchange rate differences recognised in the equity related to the subsidiary are recognised in the statement of income as a part of the gain or loss on sale.

Transactions and balances in foreign currencies

Transactions denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Receivables and liabilities are translated at the exchange rate prevailing at the end of the reporting period. Exchange rate gains and losses related to trade receivables and liabilities are reported on the applicable line in the statement of income and are included in the operating result. Exchange rate differences related to financial assets and financial liabilities are reported as financial items in the statement of income, except exchange rate differences related to non-current debt that is part of the Group's net investment in a subsidiary. Those are recognised in other comprehensive income and reported as translation differences in equity.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

In the consolidated financial statements, there are approximately 60 currencies consolidated. The most significant currencies are presented here.

		Closing rates			Average rates
		31 December	31	2020	2019
		2020	December		
			2019		
AED	UAE Dirham	4.50689	4.12602	4.19169	4.11203
AUD	Australian Dollar	1.58960	1.59950	1.65540	1.61059
BRL	Brazilian Real	6.37350	4.51570	5.89001	4.41354
CHF	Swiss Franc	1.08020	1.08540	1.07031	1.11683
CNY	Yuan Renminbi	8.02250	7.82050	7.87084	7.73388
DKK	Danish Krone	7.44090	7.47150	7.45440	7.46607
GBP	Pound Sterling	0.89903	0.85080	0.88921	0.87731
IDR	Indonesian Rupiah	17,240.76000	15,595.60000	16,619.78000	15,835.95000
INR	Indian Rupee	89.66050	80.18700	84.57954	78.85014
JPY	Yen	126.49000	121.94000	121.77545	122.05637
NOK	Norwegian Krone	10.47030	9.86380	10.72476	9.84967
RUB	Russian Ruble	91.46710	69.95630	82.64545	72.45934
SAR	Saudi Riyal	4.60347	4.21365	4.28208	4.19884
SEK	Swedish Krona	10.03430	10.44680	10.48813	10.58666
SGD	Singapore Dollar	1.62180	1.51110	1.57357	1.52721
USD	US Dollar	1.22710	1.12340	1.14128	1.11960

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
- 7. Other notes**

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

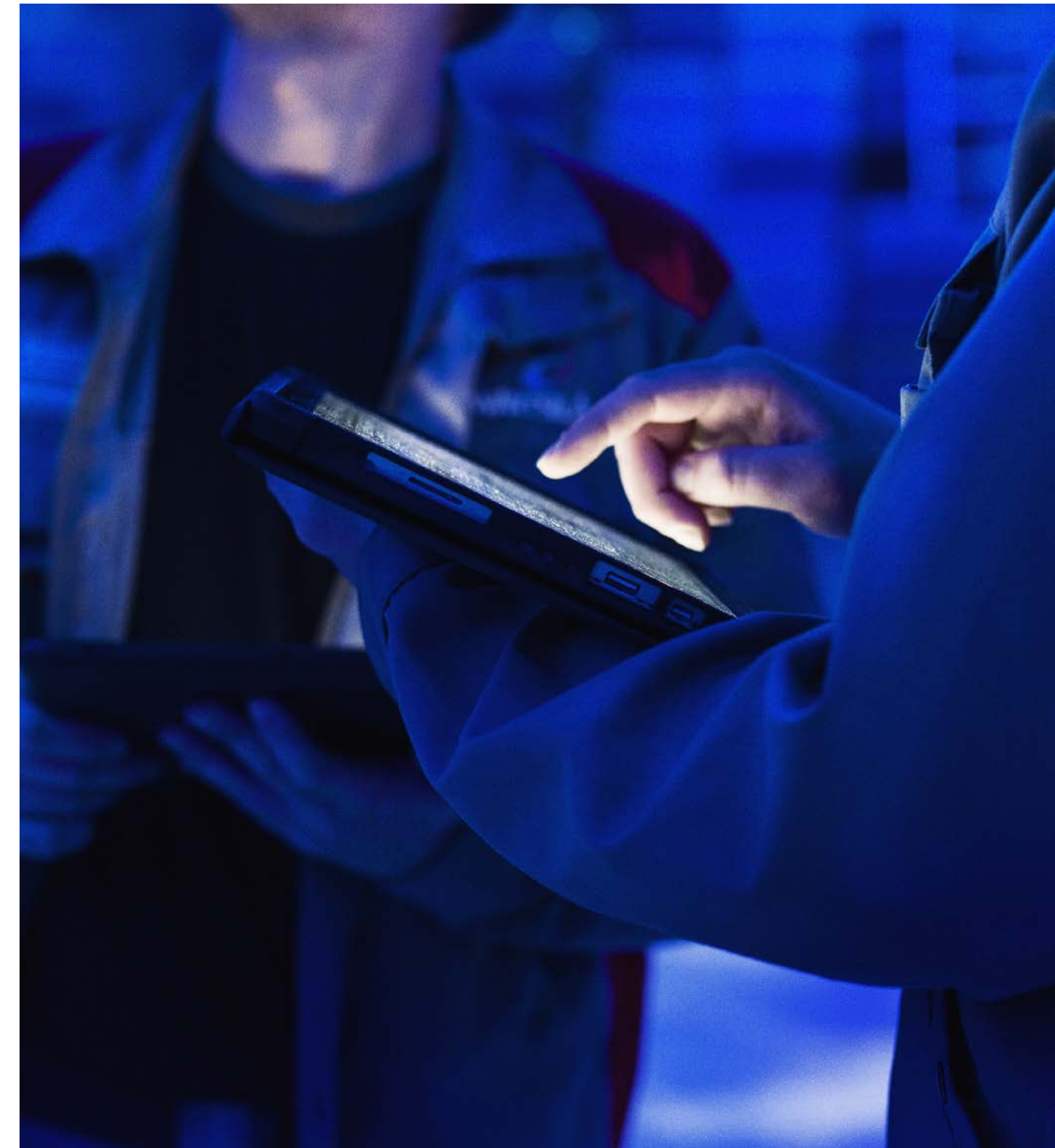
7. OTHER NOTES

7.1. COLLATERAL, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS

Accounting principles

Contingent liabilities are possible obligations resulting from previous events, the existence of which will only be ascertained once the uncertain event that is beyond the Group's control materialises. Existing obligations that are not likely to require the fulfilment of a payment obligation, or the amount of which cannot be reliably determined, are also considered contingent liabilities.

MEUR	Debt in the statement of financial position	2020		2019	
		Collateral	Debt in the statement of financial position	Collateral	Debt in the statement of financial position
Mortgages given as collateral for liabilities and commitments					
Other commitments	13	10	18	10	
Total	13	10	18	10	
Chattel mortgages and other pledges and securities given as collateral for liabilities and commitments					
Loans from credit institutions	3		5	1	
Other commitments		17		21	
Total	3	17	5	22	
Guarantees and contingent liabilities					
on behalf of Group companies			887	718	
Total			887	718	
Nominal amounts of lease liabilities					
Low-value lease liabilities			7	3	
Short-term lease liabilities			3	5	
Leases not yet commenced, but to which Wärtsilä is committed			191	143	
Total			201	151	



BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements >

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

7.2. RELATED PARTY DISCLOSURES

Related parties comprise the parent company, subsidiaries, the associated companies, and joint ventures. Related parties also include the Board of Directors, the President and CEO, the Board of Management, their family members, and entities controlled directly or indirectly by them.

Management remuneration

TEUR	Benefits recognised in the statement of income	
	2020	2019
President and CEO		
Salaries and other short-term benefits	1,177	894
Statutory pension costs	184	123
Voluntary pension costs	179	179
Other members of the Board of Management		
Salaries and other short-term benefits	3,225	2,371
Statutory pension costs	267	305
Voluntary pension costs	247	342
Total	5,279	4,214
Board of Directors on 31 December 2020		
Tom Johnstone, Chairman	163	117
Markus Rauramo, Deputy Chairman	135	97
Maarit Aarni-Sirviö, member	100	92
Karen Bomba, member	79	
Karin Falk, member	80	77
Johan Forssell, member	85	81
Risto Murto, member	90	91
Mats Rahmström, member	79	
Board of Directors, until 5 March 2020		
Kaj-Gustaf Bergh, member	2	81
Mikael Lilius, member	3	172
Total	814	806
Management remuneration, total	6,093	5,020

The holdings of Wärtsilä shares of the President and CEO, and the members of the Board of Directors and Board of Management at year-end were 238,875 shares (289,036).

The President and CEO is entitled to retire on reaching 63 years of age. The members of the Board of Management are entitled to retire on reaching the statutory retirement age. One member of the Board of Management is entitled to retire earlier, on reaching 60 years of age. The Group has no loan receivables from the executive management or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

Business transactions with the associated companies and joint ventures

MEUR	2020	2019
Sales to the associates and joint ventures	23	31
Purchases from the associates and joint ventures	67	35
Receivables from the associates and joint ventures	6	8
Advances paid to the associates and joint ventures	4	2
Payables to the associates and joint ventures	3	5

Detailed financial information on the associated companies and joint ventures is presented in Note 6.4. Investments in associates and joint ventures.

7.3. AUDITORS' FEES AND SERVICES

The following remuneration was paid to auditors and accounting firms for audits based on applicable legislation and for other services.

In 2020, the AGM appointed the audit firm PricewaterhouseCoopers Oy as Wärtsilä Corporation's auditor. PricewaterhouseCoopers Oy has provided non-audit services totalling EUR 0.4 million to entities of Wärtsilä Group. These services included tax services (EUR 0.3 million) and other services (EUR 0.1 million).

MEUR	2020		2019	
	PwC	Others	PwC	Others
Audit	4.2	0.4	4.3	0.5
Tax advisory	0.3	0.2	0.2	0.3
Other services	0.1	0.1	0.3	
Total	4.6	0.7	4.8	0.8

BOARD OF DIRECTORS' REPORT**FIVE YEARS IN FIGURES****QUARTERLY FIGURES****CALCULATIONS OF
FINANCIAL RATIOS****FINANCIAL STATEMENTS >**

Consolidated financial statements >

Consolidated statement of income

Consolidated statement
of comprehensive incomeConsolidated statement
of financial positionConsolidated statement
of cash flowsConsolidated statement
of changes in equityNotes to the consolidated
financial statements (IFRS) >

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. **Other notes**

Parent company financial statements

AUDITOR'S REPORT**WÄRTSILÄ IN THE CAPITAL MARKETS****INFORMATION FOR SHAREHOLDERS****7.4. EVENTS AFTER THE BALANCE SHEET DATE**

In January 2021, Wärtsilä announced the divestment of 100% of the shares in its Entertainment business, Wärtsilä Funa GmbH, to Videlio SA, a French public limited company. Entertainment is engaged in the field of design, fabrication, engineering and integration of entertainment systems, illumination, light control, cabin control, broadcast and digital audio distribution and announcement systems for cruise vessels and entertainment parks. The annual revenues were approximately EUR 50 million in 2020.

The event is not expected to have a material impact on the profit for the financial period 2021.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

MEUR	2020	2019	Note
Other operating income	93	89	1
Personnel expenses	-38	-37	2
Depreciation, amortisation and impairments	-5	-4	3
Other operating expenses	-89	-108	
Operating result	-39	-60	
Financial income and expenses			4
Income from financial assets	301	304	
Interest income and other financial income	64	90	
Exchange gains and losses	-2	1	
Interest expenses and other financial expenses	-58	-91	
	305	304	
Result before appropriations and taxes	266	243	
Group contribution	2		
Result before taxes	268	243	
Income taxes	-3	-3	5
Result for the financial period	265	240	

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

PARENT COMPANY BALANCE SHEET

MEUR	2020	2019	Note
ASSETS			
Fixed assets			6
Intangible assets			
Other long-term expenditure	8	10	
Intangible assets and construction in progress	1	1	
	9	11	
Tangible assets			
Land and water	2	7	
Machinery, equipment and other tangible assets	6	6	
	9	13	
Financial assets			
Shares in Group companies	950	950	
Other shares and securities	2	1	
	951	951	
Total fixed assets	969	974	
Non-current receivables			
Receivables from Group companies	90	100	7
Loan receivables	1	1	
	91	101	
Current receivables			
Trade receivables	1		
Receivables from Group companies	1,846	2,193	8
Other receivables	1	1	
Prepaid expenses and accrued income	41	29	9
	1,890	2,224	
Cash and bank balances	699	113	
Total current assets	2,680	2,438	
Assets	3,649	3,413	

MEUR	2020	2019	Note
EQUITY AND LIABILITIES			
Equity			10
Share capital	336	336	
Share premium reserve	61	61	
Retained earnings	709	754	
Result for the financial period	265	240	
Total equity	1,371	1,391	
Accumulated appropriations			
Depreciation difference	1	1	
Provisions	13	18	
Liabilities			11
Non-current			
Loans from credit institutions	953	847	
	953	847	
Current			
Loans from credit institutions	130	51	
Trade payables	6	14	
Liabilities to Group companies	1,129	1,052	13
Other current liabilities	1	2	
Accrued expenses and deferred income	44	36	12
	1,310	1,155	
Total liabilities	2,263	2,003	
Equity and liabilities	3,649	3,413	

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

PARENT COMPANY CASH FLOW STATEMENT

MEUR	2020	2019
Cash flow from operating activities:		
Result before appropriations and taxes	266	243
Adjustments for:		
Depreciation and amortisation	5	4
Gains and losses on sale of intangible and tangible assets	-2	
Financial income and expenses	-305	-304
Cash flow before changes in working capital	-36	-56
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	-14	11
Liabilities, non-interest-bearing, increase (+) / decrease (-)	3	-45
	-11	-34
Cash flow from operating activities before financial items and taxes	-47	-90
Interest and other financial expenses	-60	-89
Dividends received from operating activities	301	304
Interest and other financial income from operating activities	64	89
Income taxes paid	-3	-8
	301	295
Cash flow from operating activities	254	205
Cash flow from investing activities:		
Investments in tangible and intangible assets	-3	-2
Proceeds from sale of tangible and intangible assets	6	
Cash flow from investing activities	3	-2
Cash flow after investing activities	257	203

Cash flow from financing activities:		
Loans receivables, increase (-) / decrease (+)	355	18
Current loans, increase (+) / decrease (-)	63	-284
Proceeds from non-current borrowing	245	150
Repayments and other changes of non-current loans	-51	-56
Group contributions		76
Dividends paid	-284	-284
Cash flow from financing activities	329	-381
Change in cash and bank balances, increase (+) / decrease (-)	586	-178
Cash and bank at beginning of period	113	291
Cash and bank at end of period	699	113

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

ACCOUNTING PRINCIPLES FOR THE PARENT COMPANY

The financial statements of the parent company, Wärtsilä Corporation, have been prepared in accordance with the provisions of the Finnish Accounting Standards (FAS).

The preparation of the financial statements requires management, in compliance with the regulations in force and good accounting practice, to make estimates and assumptions that affect the measurement and timing of the reported information. Actual results may differ from these estimates.

Transactions denominated in foreign currencies and derivatives

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. Exchange gains and losses related to business operations are treated as adjustments to other operating income and operating expenses. Exchange gains and losses related to financing operations are entered under financial income and expenses.

Derivatives are measured at fair value. Open currency derivatives, including interest components, are valued at the balance sheet date. The fair value of interest rate swaps is calculated by discounting the future cash flows. Derivative changes in fair value are immediately recognised in financial income or expenses in the statement of income.

Research and development costs

Research and development costs are expensed in the financial period in which they occur.

Receivables

Receivables are valued to acquisition cost or to a lower probable value.

Fixed assets and depreciation and amortisation

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation and amortisation. Certain land areas also include revaluations.

Depreciation and amortisation is based on the following useful lives:

Other long-term expenditure	3-10 years
Buildings	20-40 years
Machinery and equipment	5-20 years

Leasing

Lease payments are treated as rentals.

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 realised. Changes to provisions are included in the income statement.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, as well as adjustments to taxes in prior years. Taxes allocated to extraordinary items are shown 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.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. OTHER OPERATING INCOME

MEUR	2020	2019
Rental income	3	3
Services to Group companies	88	85
Profit on sales of fixed assets	2	
Other		1
Total	93	89

2. PERSONNEL EXPENSES

MEUR	2020	2019
Wages and salaries	-32	-30
Pension costs	-5	-5
Other compulsory personnel costs	-1	-1
Total	-38	-37

Salaries and remunerations paid to senior management

Salaries and remunerations paid to the President and CEO and members of the Board of Directors was EUR 2 million (2).

The President and CEO has the right to retire at the age of 63 years. The members of the Board of Management are entitled to retire on reaching the statutory retirement age. One member of the Board of Management is entitled to retire earlier, on reaching 60 years of age.

The company's Board of Directors decides the remunerations of the President and CEO and his immediate subordinates.

Additional information about Management remuneration can be found in Consolidated Financial Statements Note 7.2. Related party disclosures.

Personnel on average during the year was 373 (392).

3. DEPRECIATION AND AMORTISATION

MEUR	2020	2019
Depreciation and amortisation according to plan		
Other long-term expenditure	-2	-3
Machinery and equipment	-2	-1
Total depreciation according to plan	-5	-4
Tax depreciations	-5	-4
Depreciation difference		
Depreciation difference on 1 January	1	1
Depreciation difference on 31 December	1	1

4. FINANCIAL INCOME AND EXPENSES

MEUR	2020	2019
Dividend income		
From Group companies	301	304
Total	301	304
Other interest income		
From Group companies	27	34
From other companies	1	1
Total	29	35
Other financial income		
From Group companies	23	32
From other companies	12	22
Total	35	55
Exchange gains and losses	-2	1
Interest expenses		
To Group companies	-4	-6
To other companies	-8	-8
Total	-12	-14

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Other financial expenses		
To Group companies	-18	-32
To other companies	-28	-45
Total	-46	-77
Financial income and expenses, total	305	304

5. INCOME TAXES

MEUR	2020	2019
Income taxes		
For the financial period	-3	-3
Total	-3	-3

6. FIXED ASSETS

Intangible assets

MEUR	Other long-term expenditures	Intangible assets and construction in progress	Total 2020	Total 2019
Acquisition cost at 1 January	123	1	124	125
Additions		1	1	2
Disposals	-6		-7	-3
Acquisition cost at 31 December	117	1	118	124
Accumulated amortisation at 1 January	-113		-113	-113
Accumulated amortisation on disposals and other changes	6		6	3
Amortisation during the financial period	-2		-2	-3
Accumulated amortisation at 31 December	-109		-109	-113
Carrying amount at 31 December 2020	8	1	9	
Carrying amount at 31 December 2019	10	1		11

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery, equipment and other tangible assets	Total 2020	Total 2019
Acquisition cost at 1 January	7	2	8	17	17
Additions			2		
Disposals	-4				
Acquisition cost at 31 December	2	2	11	17	17
Accumulated depreciation at January 1		-2	-3	-3	-3
Amortisation during the financial period			-2	-1	-1
Accumulated depreciation at 31 December		-1	-5	-4	-4
Carrying amount at 31 December 2020	2		6		
Carrying amount at 31 December 2019	7		6	13	13

Shares and securities

MEUR	Shares in Group companies	Shares in other companies	Total 2020	Total 2019
Acquisition cost at 1 January	950	1	951	951
Acquisition cost at 31 December	950	2	951	951
Carrying amount at 31 December 2020	950	2	951	
Carrying amount at 31 December 2019	950	1		951

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

7. NON-CURRENT RECEIVABLES

MEUR	2020	2019
Receivables from Group companies		
Loan receivables	90	100
Total	90	100

8. CURRENT RECEIVABLES FROM GROUP COMPANIES

MEUR	2020	2019
Trade receivables	27	24
Loan receivables	1,790	2,135
Derivatives	25	27
Other receivables	2	
Prepaid expenses and accrued income	3	7
Total	1,846	2,193

9. PREPAID EXPENSES AND ACCRUED INCOME

MEUR	2020	2019
Derivatives	37	24
Other	4	5
Total	41	29

10. SHAREHOLDERS' EQUITY

MEUR	2020	2019
Share capital		
Share capital on 1 January	336	336
Share capital on 31 December	336	336
Share premium reserve		
Share premium reserve on 1 January	61	61
Share premium reserve on 31 December	61	61

Retained earnings		
Retained earnings on 1 January	994	1,038
Dividends paid	-284	-284
Result for the financial period	265	240
Retained earnings on 31 December	974	994
Total shareholders' equity	1,371	1,391
Distributable equity	974	994

11. LIABILITIES

MEUR	2020	2019
Non-current		
Interest-bearing	953	847
Total	953	847
Current		
Non-interest-bearing	108	96
Interest-bearing	1,202	1,060
Total	1,310	1,155

Debt with maturity profile

MEUR	2020	2019
Loans from financial institutions:	1,084	899
Current		
<1 year	130	51
Long-term		
1-5 years	661	519
>5 years	292	328
Total	1,084	899

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

12. ACCRUED EXPENSES AND DEFERRED INCOME

MEUR	2020	2019
Derivatives	27	23
Personnel costs	9	6
Interest and other financial items	3	3
Other	4	4
Total	44	36

13. LIABILITIES TO GROUP COMPANIES

MEUR	2020	2019
Trade payables	13	15
Other current liabilities	1,072	1,008
Derivatives	43	25
Accrued expenses and deferred income	1	4
Total	1,129	1,052

14. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

2020

MEUR	Measured at amortised cost	At fair value through the statement of income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets				
Interest-bearing receivables from Group companies	90		90	90
Other receivables				
Current financial assets				
Interest-bearing receivables from Group companies	1,790		1,790	1,790
Trade receivables	1		1	1
Trade receivables from Group companies	27		27	27
Derivatives		37	37	37
Derivatives from Group companies		25	25	25
Other receivables from Group companies	3		3	3
Cash equivalents	332		332	332
Cash and bank	367		367	367
Carrying amount by category	2,610	63	2,673	2,673
Non-current financial liabilities				
Interest-bearing debt	953		953	963
Current financial liabilities				
Interest-bearing debt	130		130	130
Interest-bearing debt to Group companies	1,072		1,072	1,072
Trade payables	6		6	6
Trade payables to Group companies	13		13	13
Derivatives		27	27	27
Derivatives to Group companies		43	43	43
Other liabilities	3		3	3
Carrying amount by category	2,177	70	2,247	2,257

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

2019

MEUR	Measured at amortised cost	At fair value through the statement of income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets				
Interest-bearing receivables from Group companies	100		100	100
Other receivables	1		1	1
Current financial assets				
Interest-bearing receivables from Group companies	2,135		2,135	2,135
Trade receivables from Group companies	24		24	24
Derivatives		24	24	24
Derivatives from Group companies		27	27	27
Other receivables from Group companies	6		6	6
Cash equivalents				
Cash and bank	113		113	113
Carrying amount by category	2,379	51	2,430	2,430
Non-current financial liabilities				
Interest-bearing debt	847		847	856
Current financial liabilities				
Interest-bearing debt	52		52	52
Interest-bearing debt to Group companies	1,008		1,008	1,008
Trade payables	14		14	14
Trade payables to Group companies	15		15	15
Derivatives		23	23	23
Derivatives to Group companies		25	25	25
Other liabilities	3		3	3
Carrying amount by category	1,940	49	1,988	1,996

Information about the fair value hierarchy and valuation principle can be found in Consolidated Financial Statements Note 5.2. Financial assets and liabilities by measurement category.

15. DERIVATIVE FINANCIAL INSTRUMENTS

2020

MEUR	With external financial institutions	With Group companies	Total 2020
Nominal values of derivative financial instruments			
Currency forwards, transaction risk	1,649	1,861	3,509
Interest rate swaps	450	130	580
Cross currency swaps	237		237
Total			4,327
Fair values of derivative financial instruments (level 2)			
Currency forwards, transaction risk	34	-23	11
Interest rate swaps	-12	6	-6
Cross currency swaps	-12		-12
Total			-8

2019

MEUR	With external financial institutions	With Group companies	Total 2019
Nominal values of derivative financial instruments			
Currency forwards, transaction risk	2,358	2,448	4,806
Interest rate swaps	400	130	530
Cross currency swaps	246		246
Total			5,582
Fair values of derivative financial instruments (level 2)			
Currency forwards, transaction risk	11		11
Interest rate swaps	-7	2	-6
Cross currency swaps	-4		-4
Total			2

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Foreign currency forward contracts are against transactional risks and are matched against the hedged cashflows. Interest rate swaps are denominated in euros and the average interest-bearing period for external contracts is 59 (69) months and 125 (137) months for intragroup contracts. The average maturity for cross currency swaps is 30 (41) months.

16. FINANCIAL RISKS

General

Wärtsilä has a centralised Group Treasury with two main objectives: 1) to arrange adequate funding for the Group's underlying operations on competitive terms and 2) to identify and evaluate the financial risks within the Group and implement the hedges for the Group companies. The Group Treasury is organisationally within the Parent Company.

The details about the management of the Group's financial risks are in Note 5.8. of the Consolidated Financial statements. As the Group's liquidity and interest rate risks are managed at the parent company level the Group reporting applies fully to the Parent Company.

Foreign exchange risk

Operative foreign currency risks are followed and hedged at the subsidiary level. The Group Treasury acts as a counterparty to these hedges, if that is allowed by local regulations. To enable netting of intragroup currency flows and to reduce the amount of external transactions the Group Treasury is allowed to have minor unhedged exposures in different currencies. Any gains/losses from the Group Treasury's operations are booked directly into the financial items and we do not expect any material foreign exchange gains/losses from the Group Treasury's operations.

17. COLLATERAL, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

MEUR	2020	2019
Guarantees and contingent liabilities		
On behalf of Group companies	2,889	2,773
Total	2,889	2,773
Future nominal lease payments		
Payable within one year	4	4
Payable after one year	26	29
Total	30	33

18. RELATED PARTY LOANS AND OTHER COMMITMENTS

There are no loans receivables 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. In Note 7.2 in Consolidated Financial Statements, related party disclosures are specified. Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associated companies and joint ventures. In Notes 8 and 13 in Parent Company financial statement, receivables and liabilities from Group companies are specified.

19. AUDITORS' FEES AND SERVICES

The following fees were paid to auditors and accounting firms for audits and other services.

In 2020, the AGM appointed the audit firm PricewaterhouseCoopers Oy as Wärtsilä Corporation's auditor.

Auditors' fees

TEUR	2020	2019
Audit	341	583
Tax advisory		10
Other services	14	111
Total	355	705

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS >

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements >

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

PROPOSAL OF THE BOARD

The parent company's distributable funds total EUR 974,008,736.28, which includes EUR 264,838,387.72 in net profit for the year. There are 591,723,390 shares with dividend rights.

The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

EUR	
A dividend of EUR 0.20 per share be paid, making a total of	118,344,678.00
That the following sum be retained in shareholders' equity	855,664,058.28
Totalling	974,008,736.28

The dividend shall be paid in two instalments. The first instalment of EUR 0.10 per share shall be paid to the shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the dividend record date of 8 March 2021. The payment day proposed by the Board for this instalment is 15 March 2021.

The second instalment of EUR 0.10 per share shall be paid in September 2021. The second instalment of the dividend shall be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the dividend record day, which, together with the payment day, shall be decided by the Board of Directors in its meeting scheduled for 9 September 2021. The dividend record day for the second instalment as per the current rules of the Finnish book-entry system would be 13 September 2021 and the dividend payment day 20 September 2021

No significant changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good and in the opinion of the Board of Directors the proposed dividend will not put the company's solvency at risk.

Helsinki, Finland, 27 January 2021

Tom Johnstone

Markus Rauramo

Maarit Aarni-Sirviö

Karen Bomba

Karin Falk

Johan Forssell

Risto Murto

Mats Rahmström

Jaakko Eskola,
President and CEO

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

AUDITOR'S REPORT (TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of Wärtsilä Corporation

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.
- Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Wärtsilä Corporation (business identity code 0128631-1) for the year ended 31 December 2020. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

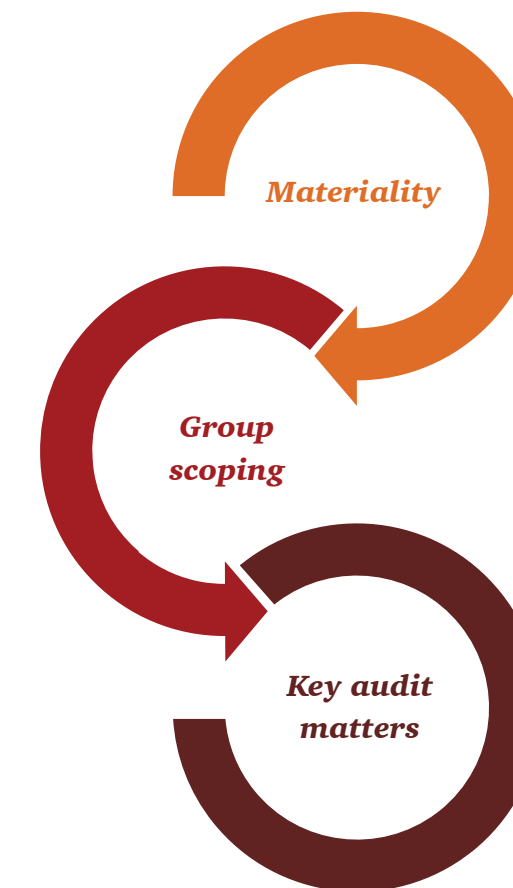
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 7.3 to the Financial Statements.

OUR AUDIT APPROACH

Overview



- We have applied an overall group materiality of € 20 million.
- The group audit scope included Wärtsilä Corporation parent company and all significant operating companies, as well as a large number of smaller companies, covering the vast majority of revenues, assets and liabilities
- Revenue recognition of long-term contracts
- Valuation of goodwill
- Valuation of trade receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT >

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 20 million (prior year € 24 million)
How we determined it	5 % of profit before tax (five-year average)
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, the performance of the Group is most commonly measured by using this criteria, and it is a generally accepted benchmark. We chose 5 % which is within the range of acceptable quantitative materiality thresholds in auditing standards

How we tailored our group audit scope

The group audit scope was tailored to take into account the structure of the Group and the size, complexity and risk of individual subsidiaries. Using this criteria we selected companies and accounts into our audit scope and at the same time ensured that we get sufficient coverage to our audit, in order to issue an audit opinion for the Group.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group

How our audit addressed the key audit matter

Revenue recognition of long-term contracts

Refer to the consolidated financial statements note 2.2.

The group has significant revenue from construction contracts and long-term operating and maintenance agreements. These long-term contracts are often complex customised solutions and meet the definition for revenue recognition over time in accordance with IFRS 15.

Revenue related to these construction contracts and long-term operating and maintenance agreements is recognised using the percentage of completion method, where progress is determined by comparing actual costs incurred to date, with the total estimated costs of the project. Revenue recognition for long-term contracts includes management judgment in a form of estimates, which are subject to management experience and expectations of future events. The most important judgment relates to the estimated total costs of the project.

Revenue recognition of long-term contracts is a key audit matter in the audit due to the high level of management judgement involved in the project estimates.

Our revenue testing included both testing of the company's controls, as well as substantive audit procedures targeted at selected major long-term projects. Our substantive testing focused on estimates applied by management in the accounting. Our procedures included, among others things, the following:

- Ensured that the revenue recognition method applied was appropriate based on the terms of the arrangement;
- Agreed the total project revenue estimates to sales agreements, including amendments as appropriate;
- We obtained an understanding of the processes and tested relevant controls, which impact the revenue recognition;
- We assessed the reliability of management's estimates by comparing the actual results of delivered projects to previous estimates;
- We challenged the management estimates and assumptions in projects, which were considered to include specific risk factors; and
- Recalculated the revenue based on the stage of completion of the projects. Ensured that the stage of completion is correct by comparing actual costs per the company's accounting records to the estimated total costs of the projects.

Valuation of goodwill

Refer to the consolidated financial statements note 3.1.

Goodwill is one of the most significant balance sheet items and amounts to € 1 325 million. The determination and whether an impairment charge is required involves significant management judgement, including identifying on which cash generating unit level the goodwill is tested and estimating the future performance of the business and the discount rate applied to these future cash flows.

Our audit focused on assessing the reasonableness of the determination of cash generating units, which forms the basis for the goodwill impairment testing and assessing the appropriateness of management's judgments and estimates used in the goodwill impairment analysis. Our procedures relating to the impairment analysis included the following:

- We tested the methodology applied in the goodwill impairment analysis as compared to the requirements of IAS 36, Impairment of Assets;
- We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to the latest Board approved targets and long term plans;

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT >

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

Valuation of goodwill is a key audit matter in the audit due to the size of the goodwill balance and the high level of management judgement involved.

- We tested the key underlying assumptions for the cash flow forecasts, including sales and profitability forecasts, discount rate used and the implied growth rates beyond the forecasted period;
- We compared the current year actual results included in the prior year impairment model to consider whether forecasts included assumptions that, with hindsight, had been optimistic; and
- We considered whether the sensitivity analysis performed by the management around key assumptions of the cash flow forecast was appropriate by considering the likelihood of the movements of these key assumptions.

Valuation of trade receivables

Refer to the consolidated financial statements note 4.2.

Net trade receivables amount to € 952 million, including an impairment provision of € 61 million. The trade receivables include € 30 million long-term trade receivables.

Trade receivables are recognised at their anticipated realisable value, which is the original invoiced amount less an estimated valuation allowance.

Valuation of trade receivables is a key audit matter in the audit due to the size of the trade receivable balance and the high level of management judgement used in determining the impairment provision.

We have no key audit matters to report with respect to our audit of the parent company financial statements. There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

For trade receivables and the management's estimations for trade receivables impairment provision, our key audit procedures included the following:

- We obtained trade receivables balance confirmations;
- We analysed the aging of trade receivables; and
- We obtained a list of long outstanding receivables and assessed the recoverability of these through inquiry with management and by obtaining sufficient corroborative evidence to support the conclusions.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT >

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

APPOINTMENT

We were first appointed as auditors by the annual general meeting on 2 March 2017. Our appointment represents a total period of uninterrupted engagement of four years.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

BOARD OF DIRECTORS' REPORT**FIVE YEARS IN FIGURES****QUARTERLY FIGURES****CALCULATIONS OF
FINANCIAL RATIOS****FINANCIAL STATEMENTS**

Consolidated financial statements

Consolidated statement of income

Consolidated statement
of comprehensive incomeConsolidated statement
of financial positionConsolidated statement
of cash flowsConsolidated statement
of changes in equityNotes to the consolidated
financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT >**WÄRTSILÄ IN THE CAPITAL MARKETS****INFORMATION FOR SHAREHOLDERS****OTHER STATEMENTS**

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable funds is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO should be discharged from liability for the financial period audited by us.

Helsinki 5 February 2021

PricewaterhouseCoopers Oy

Authorised Public Accountants

Merja Lindh

Authorised Public Accountant (KHT)

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS >

INFORMATION FOR SHAREHOLDERS

WÄRTSILÄ IN THE CAPITAL MARKETS

SHARES AND SHAREHOLDERS

Wärtsilä Corporation's shares are listed on the Nasdaq Helsinki Large Cap list under the trading code WRT1V. At the end of the financial period 2020, the number of Wärtsilä's shares totalled 591,723,390, and the share capital entered in the trade register was EUR 336,002,138.50. Wärtsilä has one share series, with each share entitling its holder to one vote at the General Meeting and to an equal dividend.

Trading in Wärtsilä's shares in 2020

The price of Wärtsilä's share on Nasdaq Helsinki decreased by 17.3%, while the OMX Helsinki Industrials and the OMX Helsinki Cap indices increased by 5.4% and 10.4%, respectively. The highest quoted price for Wärtsilä's share during the financial period was EUR 12.00 and the lowest EUR 5.01. The closing price on 31 December 2020 was EUR 8.15. The volume weighted average price for the year was EUR 7.66. At year-end, Wärtsilä's market capitalisation was EUR 4,823 million. The volume of trades on Nasdaq Helsinki was 635,449,872 shares, equivalent to a turnover of EUR 4,865 million. Wärtsilä's shares are also traded on alternative exchanges, including Turquoise, BATS CXE, and BATS BXE. The total trading volume on these alternative exchanges amounted to 199,394,959 shares. Further information on the company's share price development can be found on Wärtsilä's website at www.wartsila.com/investors/shares.

Key figures for Wärtsilä share

		2020	2019	2018	2017	2016
Earnings per share (EPS)*	EUR	0.23	0.37	0.65	0.63	0.60
Book value of equity per share*	EUR	3.68	4.05	4.09	3.97	3.87
Dividend per share*	EUR	0.20**	0.48	0.48	0.46	0.43
Dividend per earnings	%	88.2**	130.8	73.7	70.8	72.8
Dividend yield	%	2.5**	4.9	3.5	2.6	3.0
Price per earnings (P/E)		35.4	26.6	21.4	27.0	23.8
Price to book value (P/BV)		2.2	2.4	3.4	4.4	3.7
Adjusted number of shares*	x 1,000					
End of financial year		591,723	591,723	591,723	591,723	591,723
On average		591,723	591,723	591,723	591,723	591,723

* The figures in the comparison periods 2016–2017 have been restated to reflect the increased number of shares.

** Proposal of the Board of Directors

Wärtsilä shares on Nasdaq Helsinki

		2020	2019	2018	2017	2016
Trading volume	MEUR	4,865	3,947	4,754	4,800	3,826
Number of shares traded*	x 1,000	635,450	333,484	278,938	268,222	296,611
Stock turnover	%	104.6	55.0	47.1	45.3	50.1
Share price, high*	EUR	12.00	15.56	19.88	20.77	14.48
Share price, low*	EUR	5.01	8.78	12.75	13.97	11.30
Average share price*	EUR	7.66	11.82	17.04	17.90	12.89
Share price at year-end*	EUR	8.15	9.85	13.90	17.53	14.23
Year-end market capitalisation	MEUR	4,823	5,828	8,222	10,375	8,418

* The figures in the comparison periods 2016–2017 have been restated to reflect the increased number of shares.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

- Consolidated financial statements
 - Consolidated statement of income
 - Consolidated statement of comprehensive income
 - Consolidated statement of financial position
 - Consolidated statement of cash flows
 - Consolidated statement of changes in equity
- Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

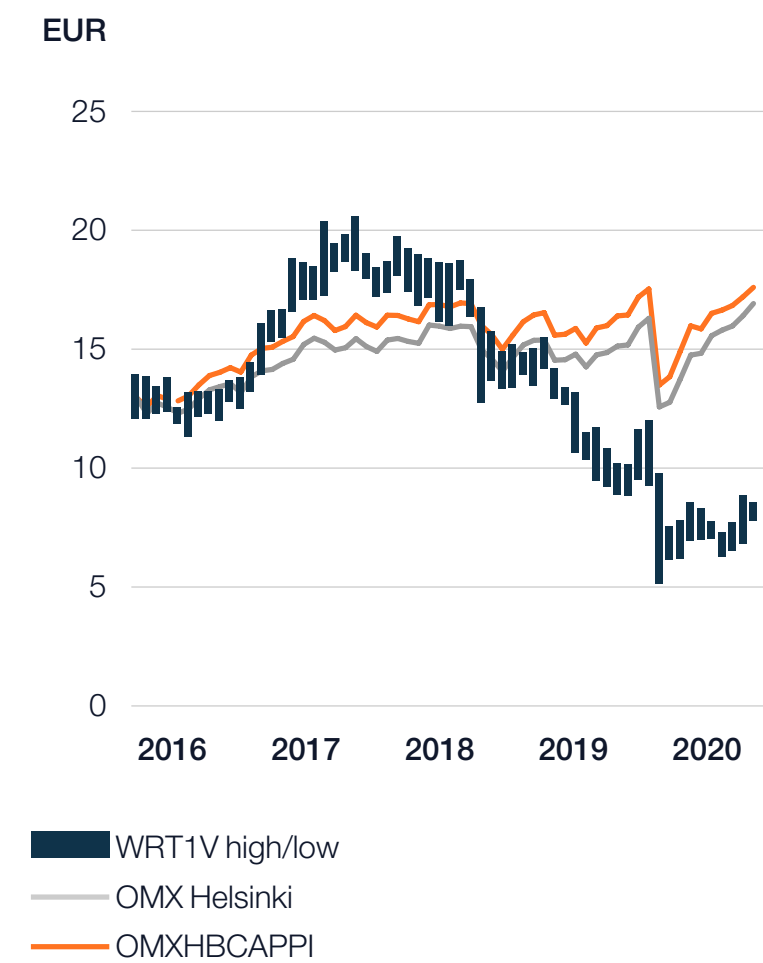
Parent company financial statements

AUDITOR'S REPORT

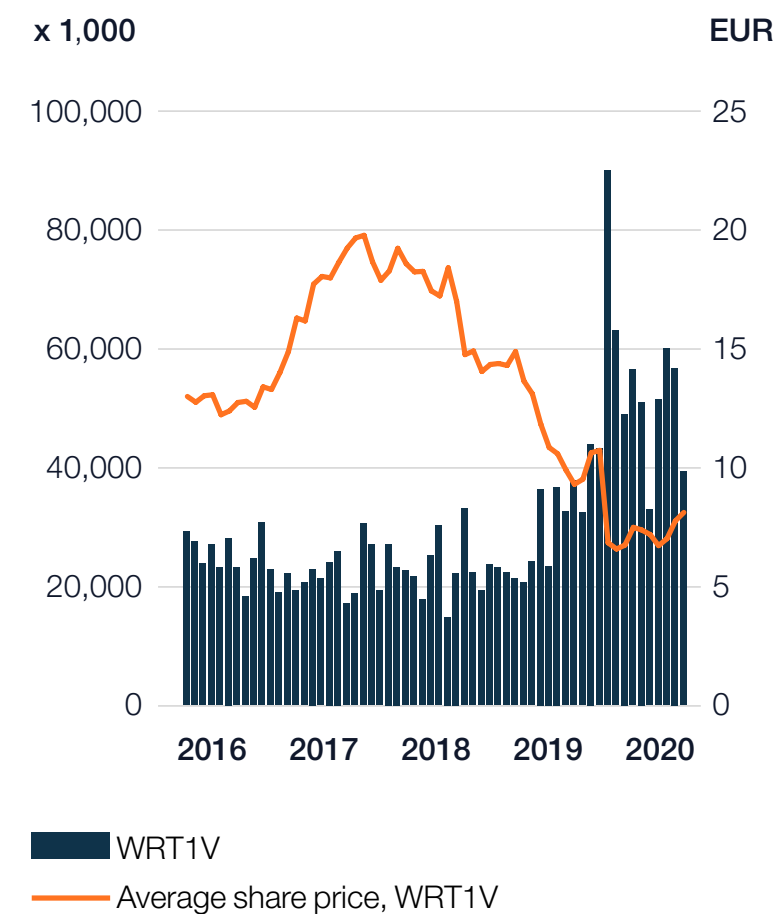
WÄRTSILÄ IN THE CAPITAL MARKETS >

INFORMATION FOR SHAREHOLDERS

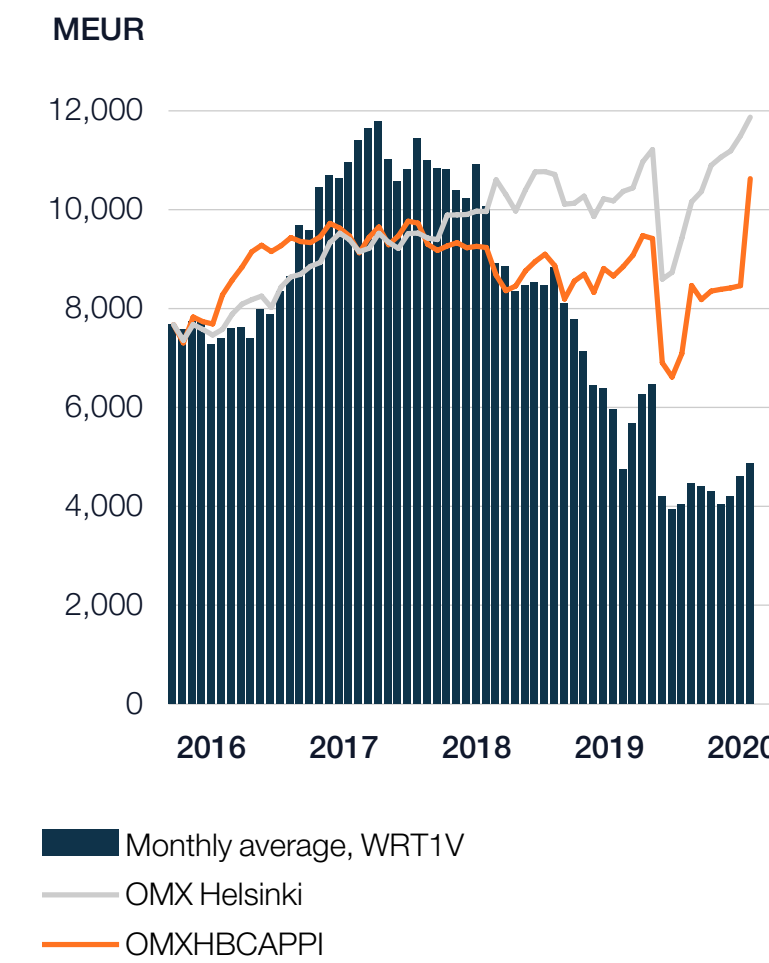
Share price development



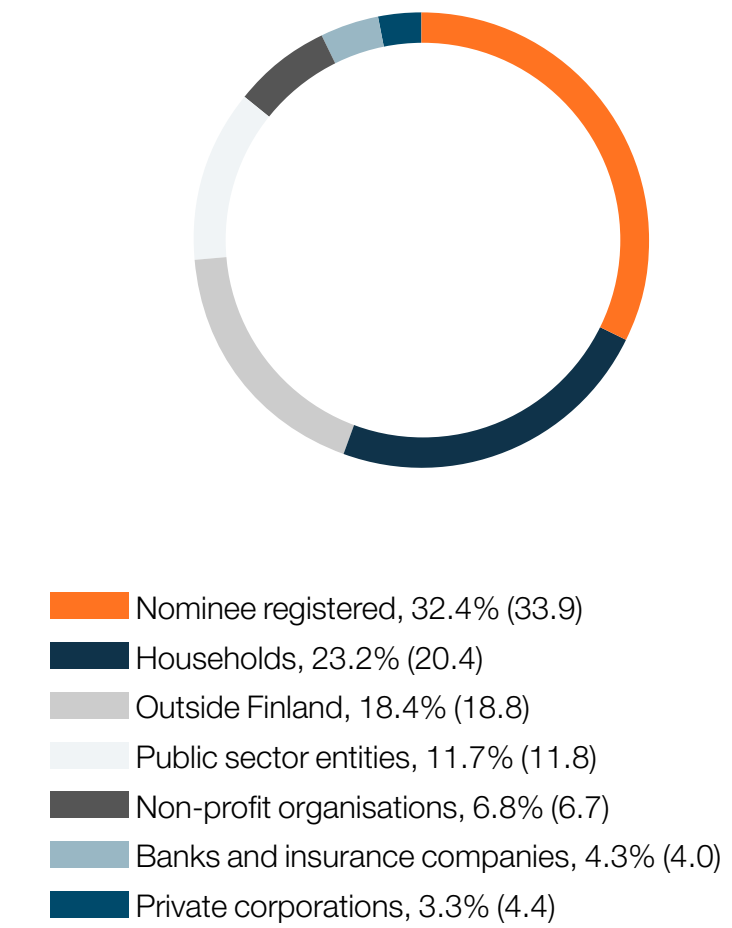
Traded shares/month



Market capitalisation



Ownership structure 31 December 2020



Shareholders

Wärtsilä had 104,834 shareholders at the end of the financial period 2020. Foreign shareholding, including nominee registered shares, represented 50.7% (52.8) of the total shareholder base at the end of the period, while Finnish retail investors represented 23.2% (20.4). Investors in Sweden, the United States, and the United Kingdom held the largest percentage of foreign shares. Further information on the company's shareholder base development can be found on Wärtsilä's website at www.wartsila.com/investors/shareholders.

Ownership structure on 31 December 2020

Group	Number of shareholders		Number of shares	
		%		%
Private corporations	3,311	3.2	19,667,763	3.3
Banks and insurance companies	123	0.1	25,363,014	4.3
Public sector entities	44	0.0	69,299,090	11.7
Non-profit organisations	968	0.9	40,112,533	6.8
Households	99,893	95.3	137,210,329	23.2
Outside Finland	495	0.5	108,603,510	18.4
Nominee registered			191,467,151	32.4
Total	104,834	100.0	591,723,390	100.0

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS >

INFORMATION FOR SHAREHOLDERS

Division of shares on 31 December 2020

Number of shares	Number of share-holders	%	Number of shares	%
1-100	33,015	31.5	1,543,338	0.3
101-1,000	49,002	46.7	19,539,210	3.3
1,001-10,000	20,191	19.3	59,678,934	10.1
10,001-100,000	2,425	2.3	59,192,441	10.0
100,001-1,000,000	172	0.2	44,719,154	7.6
1,000,001-10,000,000	26	0.0	62,876,044	10.6
10,000,001-	3	0.0	47,995,755	8.1
Nominee registered			296,178,514	50.1
Total	104,834	100.0	591,723,390	100.0

Wärtsilä's 50 major shareholders on 31 December 2020, excluding nominee registered

Owner	Shares	%
1 Invaw Invest AB	104,711,363	17.7
2 Varma Mutual Pension Insurance Company	31,768,252	5.4
3 Ilmarinen Mutual Pension Insurance Company	16,227,503	2.7
4 Elo Mutual Pension Insurance Company	8,802,922	1.5
5 The Social Insurance Institution of Finland	5,807,730	1.0
6 Svenska litteratursällskapet i Finland rf	5,680,677	1.0
7 State Pension Fund of Finland	4,220,000	0.7
8 Holdix Oy Ab	3,666,214	0.6
9 Jenny and Antti Wihuri Foundation	2,700,000	0.5
10 Sigrid Jusélius Foundation	2,374,505	0.4
11 The Finnish Cultural Foundation	2,214,092	0.4
12 Nordea Bank Abp	2,141,075	0.4
13 Holding Manutas Oy	2,100,000	0.4
14 Danske Invest Finnish Equity Fund	1,911,876	0.3
15 Op-Suomi -sijoitusrahasto	1,879,841	0.3
16 Schweizerische Nationalbank	1,771,117	0.3
17 Oy Ingman Finance Ab	1,709,000	0.3

18 Blåberg Olli Edvard	1,700,000	0.3
19 Turret Oy Ab	1,685,000	0.3
20 Sijoitusrahasto Nordea Pro Suomi	1,596,700	0.3
21 Rantanen Tuula Anneli	1,523,798	0.3
22 Samfundet Folkhälsan i Svenska Finland rf	1,434,600	0.2
23 The Signe and Ane Gyllenberg foundation	1,400,000	0.2
24 Louise och Göran Ehrnrooth Stiftelse	1,143,642	0.2
25 Veritas Pension Insurance Company Ltd	1,138,397	0.2
26 Bergsrådninnan Sophie von Julins Stiftelse	1,129,518	0.2
27 Security Trading Oy	1,100,000	0.2
28 Folkhälsan i Svenska Finland rf Inez och Julius Polins Fond	1,023,600	0.2
29 Oy Julius Tallberg Ab	1,021,740	0.2
30 Maa- ja Vesitekniikan Tuki ry	1,000,000	0.2
31 Brita Maria Renlund Foundation	1,000,000	0.2
32 Sijoitusrahasto Seligson & Co	928,971	0.2
33 Sijoitusrahasto Nordea Suomi Passiivinen	917,640	0.2
34 William Thuring's Stiftelse	840,380	0.1
35 Gripenberg Gerda Margareta Lindsay Db	826,000	0.1
36 Stockmann Marita	813,678	0.1
37 Nordea Henkivakuutus Suomi Oy	763,558	0.1
38 Seb Finlandia Optimized Low Carbon	753,935	0.1
39 Von Fieandt Berndt Johan	706,146	0.1
40 Fromond Anna Gabrielle	686,400	0.1
41 Von Julin Sofia Margareta Db	686,000	0.1
42 Folkhälsans Forskningsstiftelse – Kansanterveyden tutkimussäätiö	639,404	0.1
43 Sijoitusrahasto Nordea Nordic Small Cap	600,000	0.1
44 Sijoitusrahasto Aktia Capital	600,000	0.1
45 Fromond Lilli Sophie Louise	590,854	0.1
46 Ella and Georg Ehrnrooth Foundation	553,161	0.1
47 Markkola Leena	545,000	0.1
48 Barry Staines Linoleum Oy	540,000	0.1
49 Op-Henkivakuutus Oy	503,719	0.1
50 Evli Finland Select Fund	500,000	0.1
Total	230,578,008	39.0

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS >

INFORMATION FOR SHAREHOLDERS

Changes in ownership

Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the listed company of changes in their holdings when crossing predefined thresholds. The table to the right summarises the flagging notifications received by Wärtsilä during 2020. Further information can be found on Wärtsilä's website at www.wartsila.com/investors/shareholders/flaggings.

Management holdings

The members of the Board of Directors, the President & CEO, and the corporations under their control, owned altogether 190,323 shares in Wärtsilä Corporation at the end of 2020, which represents 0.03% of the stock and voting rights. Further details on the Board of Directors' and Board of Management's ownership of Wärtsilä's shares can be found in the [Governance](#) section.

Authorisations granted to the Board of Directors

The Annual General Meeting, held on 5 March 2020, authorised the Board of Directors to resolve to repurchase a maximum of 57,000,000 of the company's own shares. The authorisation to repurchase the company's own shares shall be valid until the close of the next Annual General Meeting, however no longer than for 18 months from the authorisation of the shareholders' meeting.

The Board of Directors was authorised to resolve to issue a maximum of 57,000,000 shares in the company. The Board of Directors was authorised to issue the shares for consideration or without consideration. The Board of Directors was also authorised to issue the shares in deviation from the shareholders' pre-emptive rights by way of a directed issue, if there is a weighty financial reason for the company to do so. The authorisation for the Board of Directors to issue shares shall be valid for three years from the authorisation of the shareholders' meeting, and it cancels the authorisation given by the General Meeting on 7 March 2019 to distribute the company's own shares.

Changes in ownership – flagging notifications

Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
24.3.2020	BlackRock, Inc.	Above 5%	4.85	5.11
31.3.2020	BlackRock, Inc.	Below 5%	4.30	4.82
1.4.2020	BlackRock, Inc.	Above 5%	4.48	5.00
2.4.2020	BlackRock, Inc.	Below 5%	4.37	4.94
25.5.2020	BlackRock, Inc.	Above 5%	4.48	5.00
26.5.2020	BlackRock, Inc.	Below 5%	Below 5%	Below 5%
18.6.2020	BlackRock, Inc.	Above 5%	4.69	5.13
15.7.2020	BlackRock, Inc.	Above 5%	5.02	5.80
23.7.2020	BlackRock, Inc.	Below 5%	4.88	5.33
24.7.2020	BlackRock, Inc.	Above 5%	5.12	5.54
27.7.2020	BlackRock, Inc.	Below 5%	4.98	5.44
28.7.2020	BlackRock, Inc.	Above 5%	5.01	5.47
29.7.2020	BlackRock, Inc.	Below 5%	4.95	5.40
31.7.2020	BlackRock, Inc.	Above 5%	5.04	5.48
5.8.2020	BlackRock, Inc.	Below 5%	4.99	5.43
6.8.2020	BlackRock, Inc.	Above 5%	5.08	5.47
11.8.2020	BlackRock, Inc.	Below 5%	4.96	5.31
11.9.2020	BlackRock, Inc.	Above 5%	5.03	5.58
18.9.2020	BlackRock, Inc.	Below 5%	4.78	5.57
21.10.2020	BlackRock, Inc.	Below 5%	Below 5%	Below 5%
14.12.2020	BlackRock, Inc.	Above 5%	4.89	5.00
15.12.2020	BlackRock, Inc.	Below 5%	Below 5%	Below 5%

The Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 0.20 euro per share be paid for the financial year 2020. The dividend will be paid in two equal instalments.

WÄRTSILÄ'S INVESTOR RELATIONS ACTIVITIES

Meetings and events

Wärtsilä's Investor Relations team, consisting of the CEO, CFO, Vice President for Investor Relations, and Investor Relations Manager, participated in over 200 investor meetings during

the year 2020. The team also maintained regular contact with equity research analysts throughout the year.

The Investor Relations team conducted meetings with institutional investors in North America, the United Kingdom, continental Europe, and in the Nordic countries. The team held roadshows on 17 days and attended nine investor conferences. Due to the COVID-19 pandemic and travel restrictions, most of the meetings, roadshows, and conferences were conducted with audio and/or video conferencing tools.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS >

INFORMATION FOR SHAREHOLDERS

Contacts

Relations with the company's investors and analysts are handled by Natalia Valtasaari, Vice President, Investor Relations, together with the Investor Relations team. General enquiries can be sent to investor.relations@wartsila.com.

Natalia Valtasaari

Vice President, Investor Relations
Tel. +358 10 709 5637
natalia.valtasaari@wartsila.com

Emilia Rantala

Manager, Investor Relations
Tel. +358 10 709 1114
emilia.rantala@wartsila.com

Alexandra Carlzén

Investor Relations Coordinator
Tel. +358 10 709 5445
alexandra.carlzen@wartsila.com

Wärtsilä's corporate communications are the responsibility of Atte Palomäki, Executive Vice President, Communications, Branding & Marketing.

Atte Palomäki

Executive Vice President, Communications, Branding & Marketing
Tel. +358 10 709 5599
atte.palomaki@wartsila.com

WÄRTSILÄ'S INVESTOR RELATIONS GUIDELINES

The ultimate objective of Wärtsilä's Investor Relations is to produce accurate, sufficient, and up-to-date information regarding the development of Wärtsilä's business operations, strategy, markets, and financial position. This is to ensure that the capital markets have the relevant information concerning Wärtsilä in order to determine the fair value of the company's shares. To achieve this objective, Wärtsilä publishes annually two interim reports, a half-year financial report, a financial statements bulletin, an annual report, and stock exchange releases. Furthermore, Wärtsilä's management conducts regular discussions with analysts and investors, both in Finland and abroad. Wärtsilä's website serves as an archive for all current and historical data on factors affecting the value of its shares.

Prospects

Guidance on Wärtsilä's prospects is published in the financial statements bulletin, in the half-year financial report, and in the interim reports. The most recently published prospect statement is repeated in the annual report. The prospect statement consists of expectations regarding demand development in Wärtsilä's markets and is approved by the Board of Directors. Wärtsilä does not publish quarterly result forecasts. Should there be a change in business circumstances that could affect the prospects, Wärtsilä will publish the prospect changes in accordance with prevailing regulations.

Analyst reports

Wärtsilä will review, upon request by an analyst, his or her earnings model or report only for factual accuracy, or for information that is in the public domain. Wärtsilä does not comment on, or take any responsibility for, estimates or forecasts published by capital market representatives.

Silent period

Wärtsilä observes a three-week silent period preceding the publication of its results to prevent the revealing of unpublished financial information. During this period, the company's representatives do not meet with investors or analysts or comment on its financial position.

Disclosure policy and financial communications

Wärtsilä discloses information on its targets, financial position, and business operations in an open, timely, truthful, and systematic manner so as to enable stakeholders to form a true and fair view of the company. Wärtsilä publishes stock exchange releases, press releases, and trade press releases. Wärtsilä's subsidiaries publish press releases with local relevance.

Matters that contain inside information and may have a material impact on the value of the company's financial instruments are published as stock exchange releases. Press releases contain information on events relating to Wärtsilä's normal business operations, which are assessed to be of general interest for investors and media. Releases to the trade press provide more detailed information on Wärtsilä's products and technologies. All stock exchange releases are published in Finnish and English. Press releases are published in English and can also be published in Finnish. Trade press releases are published in English, and local releases in the local language. All releases are available on Wärtsilä's website immediately following publication.

BOARD OF DIRECTORS' REPORT

FIVE YEARS IN FIGURES

QUARTERLY FIGURES

CALCULATIONS OF FINANCIAL RATIOS

FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated statement of income

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in equity

Notes to the consolidated financial statements (IFRS)

1. Accounting principles for the consolidated financial statements
2. Group financial performance
3. Intangible and tangible assets
4. Working capital and other balance sheet items
5. Capital structure and financial items
6. Group structure
7. Other notes

Parent company financial statements

AUDITOR'S REPORT

WÄRTSILÄ IN THE CAPITAL MARKETS

INFORMATION FOR SHAREHOLDERS >

INFORMATION FOR SHAREHOLDERS

ANNUAL GENERAL MEETING

The Annual General Meeting of Wärtsilä Corporation will take place on Thursday, 4 March 2021, beginning at 3 p.m., at the Company's headquarters (Hiililaiturinkuja 2, 00180 Helsinki, Finland). The shareholders of the Company may participate in the meeting and exercise their shareholder rights only by voting in advance and by presenting counterproposals and asking questions in advance. It is not possible to participate in the meeting in person at the meeting venue.

Right to attend

Shareholders registered no later than 22 February 2021 in the company's list of shareholders maintained by Euroclear Finland Oy have the right to attend the Annual General Meeting.

Registration and advance voting

A shareholder, who is registered in the shareholders' register of the Company and who wants to participate in the general meeting must register for the meeting and vote in advance by 26 February 2021 at 4 p.m. EET by which time the registration shall be completed and votes need to be received.

Instructions relating to the advance voting can be found on the Company's website at www.wartsila.com/agm before advance voting begins.

A shareholder may participate in the general meeting and exercise his/her rights at the meeting by way of proxy representation. The proxy representative is also required to vote in advance. Proxy and voting instruction templates are available on the Company's website at www.wartsila.com/agm on 16 February 2021 at 10 a.m. EET at the latest.

The proxy documents shall be delivered by e-mail to agm@innovatics.fi or mailed or delivered as originals to Innovatics Ltd, Yhtiökokous/Wärtsilä, Ratamestarinkatu 13 A, 00520 Helsinki, Finland before the end of the advance voting period.

PAYMENT OF DIVIDEND

The Board of Directors proposes that a dividend of EUR 0.20 per share be paid for the financial year 2020. The dividend shall be paid in two instalments.

The first instalment of EUR 0.10 per share shall be paid to the shareholders who are registered in the list of shareholders maintained by Euroclear Finland Oy on the dividend record date of 8 March 2021. The payment day proposed by the Board for this instalment is 15 March 2021.

The second instalment of EUR 0.10 per share shall be paid in September 2021. The second instalment of the dividend shall be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Oy on the dividend record day, which, together with the payment day, shall be decided by the Board of Directors in its meeting scheduled for 9 September 2021. The dividend record day for the second instalment as per the current rules of the Finnish book-entry system would be 13 September 2021 and the dividend payment day 20 September 2021.

STOCK EXCHANGE RELEASES

Wärtsilä's stock exchange releases are available in English and Finnish on Wärtsilä's website at www.wartsila.com/media/news-releases.

FINANCIAL CALENDAR 2021

Annual Report 2020 on Wednesday, 10 February 2021

Interim Report January-March 2021 on Thursday, 22 April 2021

Half-year Financial Report January-June 2021 on Tuesday, 20 July 2021

Interim Report January-September 2021 on Tuesday, 26 October 2021

Financial Statements Bulletin January-December 2021 on Friday, 28 January 2022

Annual reports, interim reports, half-year reports, and financial statements bulletins are available in English and Finnish on Wärtsilä's website at www.wartsila.com. Wärtsilä's financial calendar can be found on the company's investor pages on www.wartsila.com/investors.

CONTACT US

WÄRTSILÄ HQ

Hiililaiturinkuja 2, FI-00180 Helsinki, Finland
Tel. +358 10 709 0000

WEBSITE

www.wartsila.com

FOLLOW US



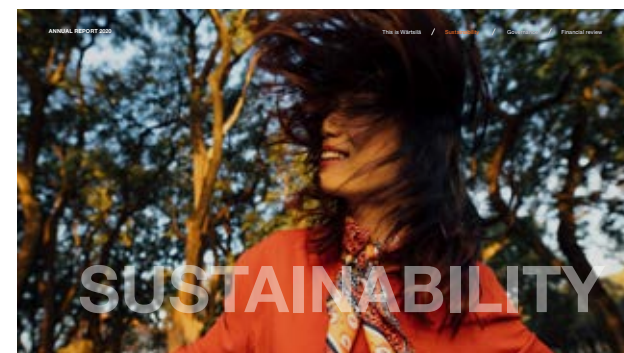
Wärtsilä is a global leader in smart technologies and complete lifecycle solutions for the marine and energy markets. By emphasising sustainable innovation, total efficiency and data analytics, Wärtsilä maximises the environmental and economic performance of the vessels and power plants of its customers.



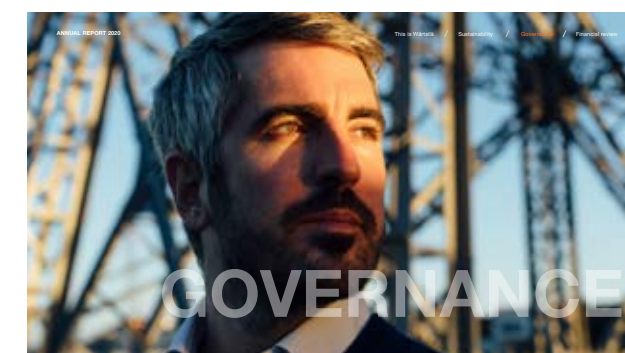
Annual report 2020



This is Wärtsilä



Sustainability



Governance



Financials