

BOARD OF DIRECTORS' 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.

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 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

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

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).

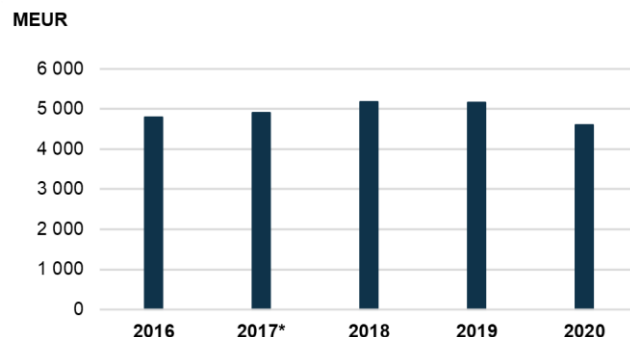
Net sales and operating result

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).

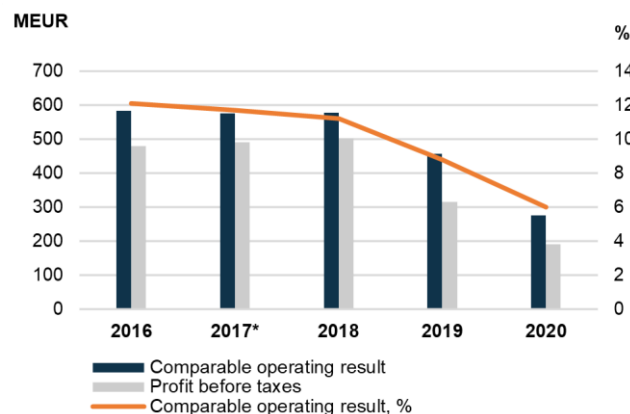
Financial items amounted to EUR -43 million (-47). Net interest totalled EUR -10 million (-12). Profit before taxes amounted to EUR 191 million (315). Taxes amounted to EUR 58 million (97), implying an effective tax rate of 30.3% (30.7). Profit for the financial year amounted to EUR 133 million (218). 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).

Group net sales development



*Restated due to IFRS 15

Result



*Restated due to IFRS 15

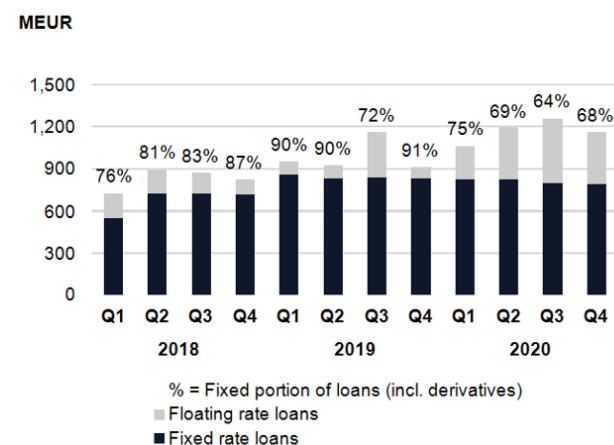
Megawatts delivered

	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%

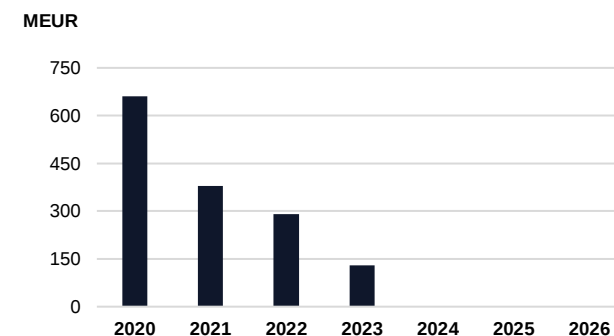
Financing and cash flow

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.

Loans

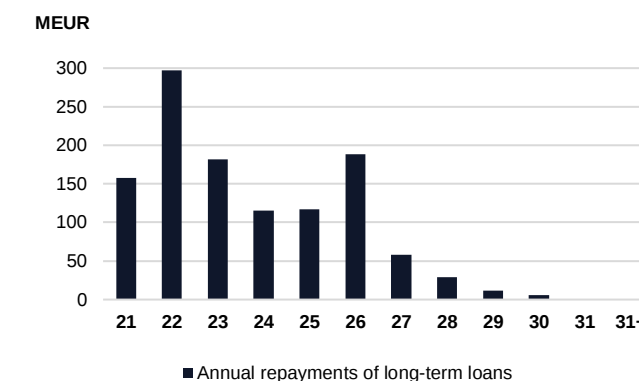


Committed revolving credit facilities (end of period)

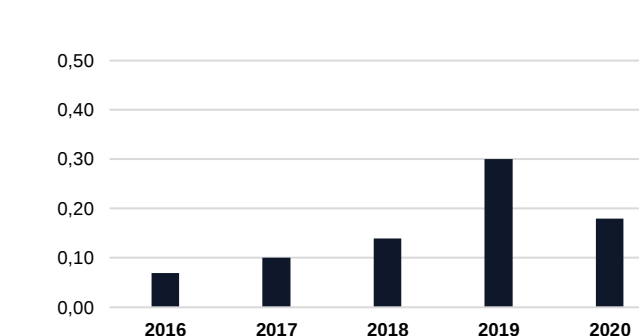


Wärtsilä aims to ensure sufficient liquidity at all times through efficient cash management and by maintaining the availability of sufficient committed and uncommitted credit lines. Refinancing risk is managed by having a balanced and sufficiently long loan portfolio. Wärtsilä has focused on further 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.

Maturity profiles of long-term loans



Gearing



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.

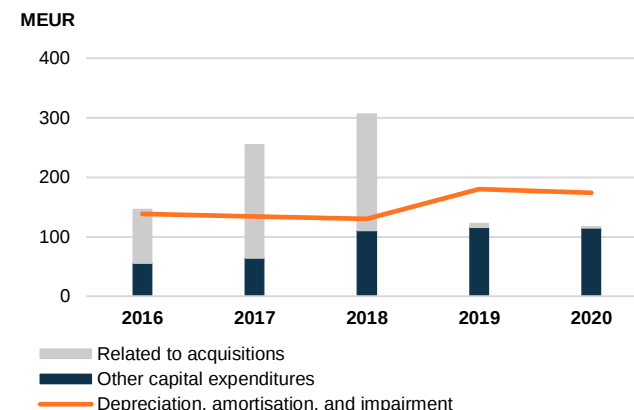
Net interest-bearing debt totalled EUR 394 million (726). Gearing was 0.18 (0.30), while the solvency ratio was 38.1% (40.8). Equity per share was 3.68 euro (4.05).

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.

Gross capital expenditure



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

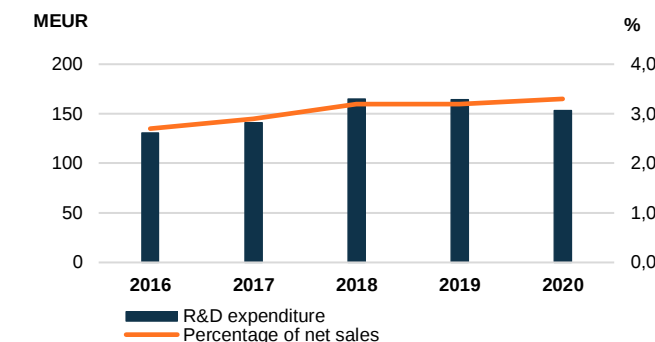
In line with its aim to lead the transition towards a 100% renewable energy future, Wärtsilä launched the Energy Transition Lab, an open-data platform for the energy industry to understand the impact of greater utilisation of renewable energy and the effects of COVID-19, and help accelerate the energy 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.

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 co-operation.

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 co-operation agreement covering the future development, sales, and servicing of gate rudders with Kuribayashi Steamship in Japan. As an authorised license 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 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 license and co-operation agreement with the UK-based Anemoi 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 Anemoi 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

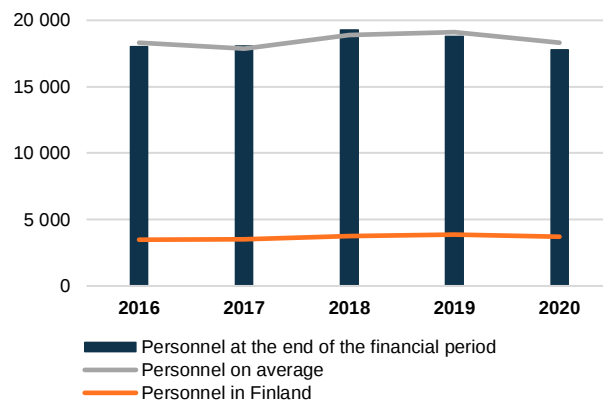
Wärtsilä's new organisational structure became operational on 1 July 2020. With the new structure, Wärtsilä aims to accelerate strategy execution and drive long-term performance. Marine Power, Marine Systems, and Energy will focus on delivering profitable growth by strengthening their offering of solutions 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



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. 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. 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.

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.

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

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.

The following members were appointed to Wäertsilä'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 Wäertsilä)

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 amount 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

WÄERTSILÄ'S PROSPECTS FOR 2021

Wäertsilä 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.

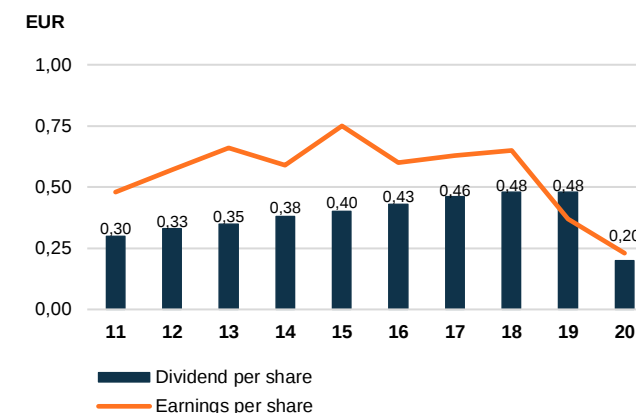
BOARD OF DIRECTORS' DIVIDEND PROPOSAL

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 Wäertsilä Corporation's Annual General Meeting on 8 March 2018 increased the total number of Wäertsilä 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, Wäertsilä announced the divestment of 100% of the shares in its Entertainment business, Wäertsilä Funa GmbH, to Videlio SA, a French public limited company. Wäertsilä 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.

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.

				Restated	
MEUR	2020	2019	2018	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	-	-	-
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.

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

[illegible]

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.

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
Total equity and liabilities – advances received x 100

Gearing

Interest-bearing liabilities – cash and cash equivalents

Equity

Return on investment (ROI)

Profit before taxes + interest and other financial expenses
Total equity and liabilities – non-interest-bearing liabilities – provisions, average over financial period x 100

Return on equity (ROE)

Profit for the financial period
 _____ x 100
 Equity, average over the financial period

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
 _____ x 100
 Earnings per share (EPS), basic and diluted

Effective dividend yield

Dividend per share
 _____ x 100
 Adjusted share price at the end of the financial period

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

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.
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.
Operating result	234	362	
as a percentage of net sales	5.1	7.0	
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.

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.

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.

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
MEUR	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

	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
MEUR	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.

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.

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.

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.

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.

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 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.

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

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.

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

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.

2.4. MATERIAL AND SERVICES

Accounting principles

Material and services expenses relate to purchases of goods and consumables from suppliers for manufacturing less discounts and tax refunds related to purchases. 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

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.

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, 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:

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

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 cash generating units (CGU) 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.

	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, licenses, 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.

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	Develop- ment expenses	Construc- tion 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
Accumulated amortisation and impairment on 31 December 2020	-115	-1	-628
Carrying amount on 31 December 2020	68	122	201

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	Develop- ment expenses	Construc- tion 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			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

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.

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

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.

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

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.

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.

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 behavior, 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

	2020		2019	
MEUR	Trade receivables	of which impaired	Trade receivables	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.

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.

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 provisions	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 provisions	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.

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	Recog- nised in the con- solidated statement of income	Other compre- hensive income	Transla- tion dif- ferences	Acquisi- tions	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

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.

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

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

		Effect to defined benefit obligation, MEUR	
	Change in assumption	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

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

* 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.

2020

	Measured at amortised cost	At fair value through the statement of income	At fair value through other compre- hensive income	Carrying amounts of the statement of financial position items	Fair value
MEUR					
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
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

* In addition, the Group has cash and cash equivalents measured at amortised cost of EUR 14 million related to assets held for sale.

2019

	Measured at amortised cost	At fair value through the statement of income	At fair value through other compre- hensive income	Carrying amounts of the statement of financial position items	Fair value
MEUR					
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
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.

Fair value hierarchy

Accounting principles

Wäertsilä 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

	2020		2019	
MEUR	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.

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.

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	Current Non-current				Total
	< 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

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 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 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	Net against fixed sales and purchase contracts	2020		2019
		Against net loans	Net 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.

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	

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 were 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

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.

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 un-utilised. 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				
Year	Maturing	2020 Available (end of period)	Maturing	2019 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.

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

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 advisors 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.

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.

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.

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

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 electronical 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			

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.

Geo-graphical 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
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 BV	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
	Wärtsilä 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
	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 Mauritanie SA	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.

In the consolidated financial statements, there are approximately 60 currencies consolidated. The most significant currencies are presented here.

		31 December 2020	Closing rates 31 December 2019	2020	Average rates 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

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.

	Debt in the statement of financial position	2020 Collateral	Debt in the statement of financial position	2019 Collateral
MEUR				
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
MEUR		2020		2019
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

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

	Benefits recognised in the statement of income	
TEUR	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

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.

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	

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	

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

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.

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
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	3	
Disposals	-4			-4	
Acquisition cost at 31 December	2	2	11	15	17
Accumulated depreciation at 1 January		-2	-3	-4	-3
Amortisation during the financial period			-2	-2	-1
Accumulated depreciation at 31 December		-1	-5	-6	-4
Carrying amount at 31 December 2020	2		6	9	
Carrying amount at 31 December 2019	7		6		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

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	1038
Dividends paid	-284	-284
Result for the financial period	265	240
Retained earnings on 31 December	974	994
Total shareholders' equity	1371	1391
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

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
Derivatives to Group companies		43	43
Other liabilities	3	3	3
Carrying amount by category	2,177	70	2,247

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

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

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

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



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

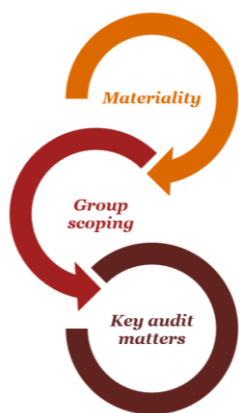
We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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

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;

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.

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.

Valuation of goodwill is a key audit matter in the audit due to the size of the goodwill balance and the high

- 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.

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;



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

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

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.

sufficient corroborative evidence to support the conclusions.

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.

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.
- 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.

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)