

BOARD OF DIRECTORS' REPORT

BUSINESS MODEL

Wärtsilä provides the marine and energy markets with innovative technologies and lifecycle solutions. In the energy industry, Wärtsilä offers power system optimisation with a portfolio of future fuel enabled thermal balancing power solutions, hybrid solutions, as well as energy management and storage systems on an equipment only or turnkey delivery basis. The marine offering includes power and propulsion 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 performance-based agreements that ensure a maximised installation lifetime, increased efficiency, and guaranteed performance. The company aims at maximising environmental and economic performance by emphasising innovation in sustainable technology and services.

To support its geographically dispersed customer base, Wärtsilä's sales and service network covers more than 200 locations in 68 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 material suppliers. Wärtsilä's personnel is made up of approximately 17,000 employees comprising 130 nationalities. By recruiting and retaining the best talent, Wärtsilä can 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 requires its suppliers and business partners to follow the same high legal and ethical standards and business practices.

STRATEGY

Strategy implementation in 2021

In 2021, Wärtsilä launched a new phase in the company's development, with the company's value creation potential going forward being based on two strategic themes: Transform and

Perform. The Transform theme refers to decarbonisation, creating new business opportunities by leveraging growth in electricity generation, balancing power and green marine transport. The Perform theme centres around leveraging market recovery and growth, supported by robust execution, continuous improvement, and the company's commitment to both financial and sustainability targets. Wärtsilä's purpose to enable sustainable societies through innovation in technology and services is well connected to the Transform and Perform themes. The company's five strategic priorities emphasise customer value, high-performing teams, decarbonisation, service growth, and continuous improvement.

Despite the continued Covid-19 related disruptions to business operations, Wärtsilä remains committed to R&D activities. In line with the global trend towards decarbonising the energy and marine markets, further progress in future-proofing engine technology was demonstrated in 2021 by the launch of a major test programme towards carbon-free fuel solutions with hydrogen and ammonia. Wärtsilä expects to have an engine concept ready for operating with pure ammonia fuel in 2023 and with pure hydrogen by 2025.

While much of the decarbonisation work is still ahead, Wärtsilä already has solutions and technologies that enable 100% renewable power systems and fuel flexibility, thus supporting decarbonisation. In 2021, Wärtsilä Energy launched 34SG Balancer, the optimal solution for balancing renewable power generation, and delivered the first units of the new modular Quantum platform for energy storage. Wärtsilä Marine Power upgraded the popular 20DF dual-fuel engine to deliver more power with less energy consumption, while its methane slip is lowered by as much as 40%. Wärtsilä Marine Systems is driving the development of maritime carbon capture and storage technologies and will be one of the leading partners in the LINCCS consortium, strengthening the decarbonisation pathway for shipping. Wärtsilä Voyage initiated partnerships and projects globally to support vessel and port service optimisation to enable sustainable shipping. Their digital systems, such as Navi-Port and Field Operations Solution, optimise the vessel journey and enable just-in-time arrival for ships, thereby saving fuel while reducing time at anchorage, and reducing greenhouse gas emissions.

Wärtsilä regards collaboration with industry stakeholders as an essential element in the development of technologies needed to meet changing market requirements. Joint efforts with our ecosystem included agreements aimed at utilising carbon-neutral fuels in both power production and marine applications, and enhancing safety and efficiency in maritime operations.

In 2021, Wärtsilä announced its commitment to ambitious decarbonisation targets. The company's goal is that by 2030 it will become carbon-neutral in its own operations, and be able to provide a product portfolio ready for zero-carbon fuels. These new targets demonstrate Wärtsilä's commitment to a sustainable future. The company's aim is to support its customers on their decarbonisation journey, and thus shape the decarbonisation of the marine and energy sectors. Wärtsilä's products and solutions will meet the most stringent environmental requirements, and the fuel flexibility of the engines powering these sectors is key to enabling the transformation. Naturally, Wärtsilä also needs to do its part as an organisation and minimise its own environmental footprint.

The health and safety of personnel is a continuous priority for Wärtsilä, and all the more important during 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. A global crisis response team and local country incident management teams continued to support the company in securing global mobility whilst observing appropriate safety and precautionary measures. In addition, Wärtsilä established a global Wellbeing Committee, with the goal of improving the health, safety, and wellbeing of its personnel through effective leadership, activities, and a wellbeing-focused culture. Zero lost-time injuries continues to be the company's global target. During 2021, lost-time injury frequency was 1.55 (2.03), which represents a decrease of 24% compared to the previous year.

Financial targets and outcome in 2021

In 2021, Wärtsilä introduced new financial targets. Those include annual organic growth of 5% and an operating margin of 12%. 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 net sales for 2021 increased by 6% organically. Operating result amounted to EUR 314 million, which represents 6.6% of net sales. Gearing was 0.00. The Board of Directors' proposed dividend of EUR 0.24 per share represents 73.2% of operational earnings.

THE YEAR 2021

Operating environment

Marine

The shipping and shipbuilding markets were characterised by mixed activity levels across different vessel segments during 2021. Altogether 1,855 contracts for new vessels were registered in the review period January–December (815 in the corresponding period last year, excluding late reporting of contracts), largely driven by containerships. Growing and pent-up demand, along with logistical disruptions, has resulted in a shortage of available tonnage in the containership, gas carrier, and bulker sectors, and has pushed earnings and newbuild contracting to levels exceeding the pre-Covid era. The surge in newbuild ordering has supported the forward cover of larger shipyard groups, which have managed to mitigate the impact of a rapid increase in raw material costs by increasing the price for newbuild vessels. However, high earnings and tonnage demand have led to postponements of activities that require dry-docking, such as scrubber retrofits. At the same time, the progress in Covid-19 vaccination programmes, and the lifting of travel restrictions in key cruise locations have resulted in further reactivation of the cruise fleet. However, the impact of the Omicron virus variant over time remains an uncertainty. Newbuild cruise activity is still limited, and utilisation rates remain below 2019 levels.

The most attractive vessel segments for Wärtsilä, namely specialised tonnage, have recovered from the turmoil caused by the pandemic to a varying degree. The reactivation of cruise vessels significantly improved during the second half of the year, as operators resumed sailing. As at the end of December, around 70% of the cruise fleet capacity was active, up from around 50% at the end of September, and around 20% at the end of June. The ferry market continues on a positive trend, although passenger travelling is still somewhat limited due to Covid-19 related restrictions. Activity in the offshore oil and gas segment marginally improved, supported by a slight rise in vessel demand and elevated demolition activity. The demand for offshore construction-related vessels, such as wind turbine installation vessels has improved, thanks to strong growth in active offshore wind farms. The LNG (liquefied natural gas) carrier sector remains healthy, as inventories have been at record-low levels, thus supporting LNG trade and the demand for tonnage, regardless of a strong increase in gas prices. The container shipping markets have continued to see extraordinary market conditions. Severe port congestion and widespread logistical disruption, alongside firm demand, have led to further new records in freight and charter rates, as well as newbuild ordering. The tanker market continued to face challenges with weak demand, especially in the crude sector.

The acceleration of environmental concerns remains the main underlying trend, as the regulatory framework and wider policy announcements are being ramped up from political regulators, cargo owners, and financiers, all of whom are building pressure to move faster than the current targets set by the International Maritime Organisation (IMO). In July, the European Commission adopted a package of proposals ('Fit for 55') to cut greenhouse gas (GHG) emissions by at least 55% from 1990 levels by 2030. One of

the many proposals is to include shipping in the EU Emissions Trading System from 2023. Another is the FuelEU Maritime Initiative, which aims at increasing the adoption of cleaner technologies and sustainable alternative fuels by imposing a limit on the GHG intensity of energy used by ships. As the global pressure to find solutions to stop climate change builds, ship owners are considering a number of options, including slow steaming, energy saving devices, voyage optimisation solutions, hybrid and full-electric power systems, and alternative fuels. The transition to cleaner fuels has already started, with 384 orders placed globally for alternative fuel capable vessels, representing 21% (17%) of all newbuild contracting in the review period January–December. LNG is the dominant choice and is gaining further traction, although other alternative fuels are slowly emerging. The price differential between high and low-sulphur fuels increased throughout the year to USD 150 per tonne. The interest in scrubber installations continues to be mostly driven by newbuilds, with orders recorded for 231 vessels globally in 2021. Scrubber retrofit activity continued to be muted.

Energy

The global liquid and gas fuelled power plant markets were recovering towards the end of 2021, despite the pandemic and the resulting weakening of the investment environment. While the market situation is improving, customers still continue to postpone investments due to the prevailing uncertainty regarding the duration, development, and economic impacts of the pandemic. As vaccination programmes in a large part of our core markets move slowly, full recovery will most likely take time. Additionally, energy and climate policies are being developed and reviewed around the world to drive more ambitious decarbonisation targets, and utilities continue to update their investment strategies, which is causing uncertainty and delays in decision making. The vast majority of global greenhouse gas emissions is targeted by national pledges and net-zero targets, but detailed plans and strategies to cut emissions already during this decade are still in the making. In the energy storage markets, activity has continued at a good level, driven by the increasing need for short-term flexible capacity in power systems with a high share of renewables. Going forward, the increasing amount of intermittent renewable energy in power systems is expected to bring forward the need for various flexible solutions, such as energy storage and balancing power plants.

Target

	Development in 2021	Development in 2020
Organic growth in net sales 5%	6%	-9%
Operating margin 12%	6.6%	5.1%
Gearing below 0.50	0.00	0.18
Dividend payment at least 50% of earnings per share over the cycle	73.2%*	88.2%

*Proposal of the Board of Directors

Financial stimuli by governments and financial institutions to the energy sector are intended to support investments in green energy, but the execution of such plans on a wider scale is still pending. Demand for services was at a good level, and customers continued to show interest in long-term agreements, thus providing stability to the business that is lumpy by nature.

Wärtsilä's market share in the up to 500 MW market segment decreased to 5% (6), while global orders for natural gas and liquid power plants increased by 10% to 19.2 GW during the twelve-month period ending in September 2021 (17.4 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 2021 increased by 32% to EUR 5,735 million (4,359) compared to the low ordering levels of the corresponding period in the previous year. Book-to-bill was 1.20 (0.95). Service order intake increased by 17% to EUR 2,656 million (2,267), reflecting improved market sentiment in the marine markets. Equipment order intake increased by 47% to EUR 3,079 million (2,091), driven by strong demand for energy storage solutions and a few important power plant orders.

The order book at the end of the year increased by 16% to EUR 5,859 million (5,057) despite divestments of certain business units. Wärtsilä's current order book for 2022 deliveries is EUR 3,763 million (3,298).

Net sales and operating result

Wärtsilä's net sales in 2021 increased by 4% to EUR 4,778 million (4,604) compared to the previous year. Service net sales increased by 11% to EUR 2,499 million (2,255) on the back of a weak comparison year. Equipment net sales decreased by 3% to EUR 2,279 million (2,349). Of Wärtsilä's net sales, approximately 60% was EUR denominated and 25% USD denominated, with the remainder being split between several currencies.

The operating result amounted to EUR 314 million (234) or 6.6% of net sales (5.1). The improvement in profitability was driven by a more favourable sales mix between equipment and services, as well as improved service capacity utilisation. However, the

operating result continued to be burdened by Covid-19 driven cost inflation and challenges in the utilisation of personnel, under-absorption of factory capacity cost, pressure on cost of supply and logistics, as well as by approximately EUR 20 million net provisions arising from a detailed project risk review conducted in the first quarter in Wärtsilä Energy. The comparable operating result totalled EUR 357 million (275) or 7.5% of net sales (6.0). Items affecting comparability comprised costs of EUR 43 million (41) related primarily to divestments, restructuring programmes, and footprint adjustments. The comparable adjusted EBITA amounted to EUR 388 million (308) or 8.1% of net sales (6.7). Purchase price allocation amortisation amounted to EUR 31 million (33).

Financial items amounted to EUR -18 million (-43). Net interest totalled EUR -11 million (-10). Profit before taxes amounted to EUR 296 million (191). Taxes amounted to EUR 103 million (58), implying an effective tax rate of 34.7% (30.3). Profit for the financial year amounted to EUR 193 million (133). Basic earnings per share totalled 0.33 euro (0.23). Return on investment (ROI) was 9.7% (7.1), while return on equity (ROE) was 8.6% (5.8).

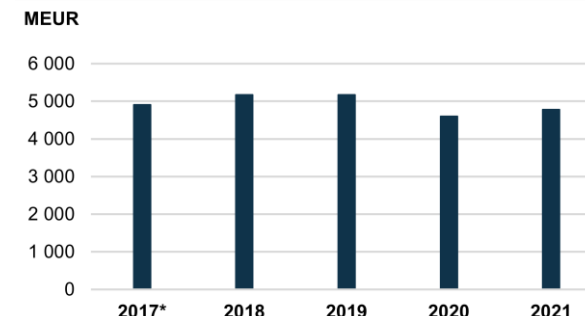
Financing and cash flow

Wärtsilä's cash flow from operating activities in 2021 totalled EUR 731 million (681), supported by favourable working capital development. Working capital totalled EUR -100 million at the end of the year (257). Advances received totalled EUR 498 million (452). There were no additional advances pertaining to assets held for sale (38).

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.

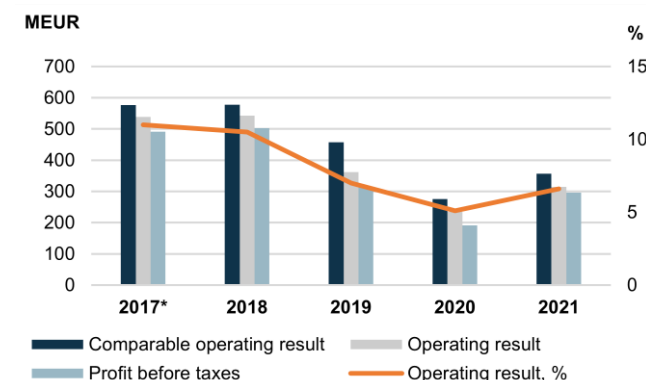
Cash and cash equivalents amounted to EUR 964 million at the end of the year (919). There were no additional cash or cash equivalents pertaining to assets held for sale (14). Unutilised committed credit facilities totalled EUR 650 million (660).

Group net sales development



*Restated due to IFRS 15

Result



*Restated due to IFRS 15

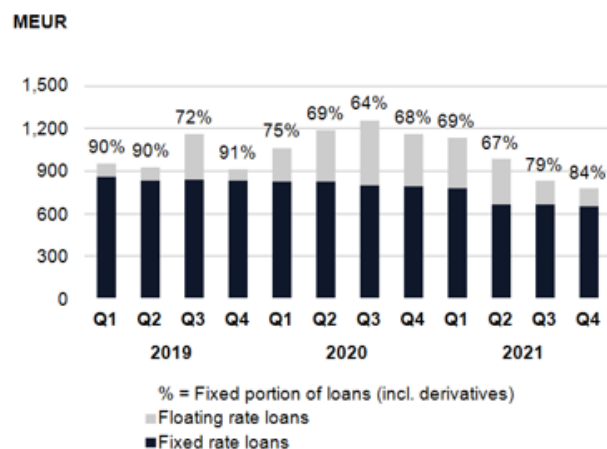
Megawatts delivered

	2021	2020	Change
Marine Power	1,315	1,257	5%
Energy	1,402	1,172	20%
Wärtsilä total	2,717	2,429	12%
By joint venture	250	274	-9%
Deliveries total	2,967	2,703	10%

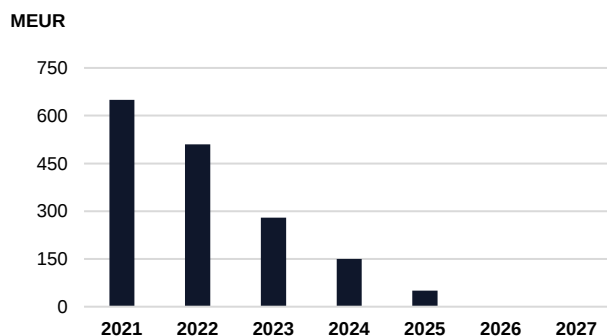
Wärtsilä had interest-bearing debt totalling EUR 973 million at the end of the year (1,327). The total amount of short-term debt maturing within the next 12 months was EUR 121 million. Long-term loans amounted to EUR 851 million.

Net interest-bearing debt totalled EUR 4 million (394). Gearing was 0.00 (0.18), while the solvency ratio was 38.6% (38.1). Equity per share was 3.92 euro (3.68).

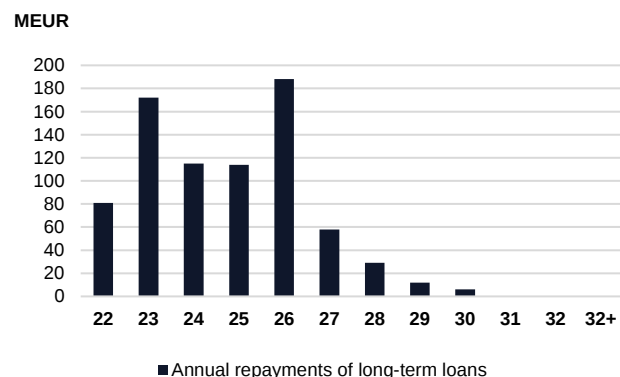
Loans



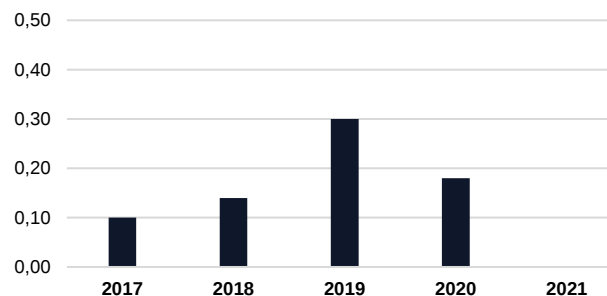
Committed revolving credit facilities (end of period)



Maturity profiles of long-term loans



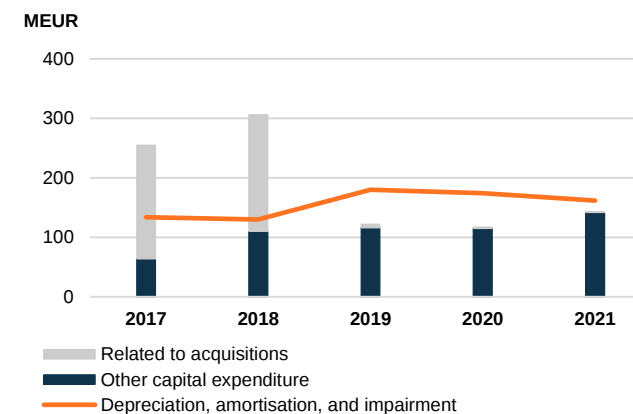
Gearing



Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 142 million (115) in 2021, largely driven by the construction of Smart Technology Hub, a new centre of research, product development, and manufacturing in Vaasa, Finland. Capital expenditure related to acquisitions and investments in securities totalled EUR 1 million (2). Depreciation, amortisation, and impairment amounted to EUR 162 million (174), including depreciation and impairment of right of use assets of EUR 47 million (47).

Gross capital expenditure



In 2022, capital expenditure related to intangible assets and property, plant, and equipment is expected to be at around the same level as depreciation, amortisation, and impairment.

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 clean 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 solution offering, Wärtsilä goes beyond the mere maintenance and operation of installations by delivering guaranteed performance based on mutually agreed target levels. Research and development expenditure totalled EUR 175 million (153) in 2021, which represents 3.7% of net sales (3.3).

In March, Wärtsilä announced that it has conducted extensive research and development work in exploring ways by which carbon capture and storage (CCS) can be developed and scaled in the maritime industry. To further accelerate the development, Wärtsilä is in the process of carrying out commissioning of a 1 MW pilot plant installation at its test facility in Moss, Norway. This pilot plant

will allow Wärtsilä to test its CCS technologies in a range of scenarios and conditions. With this announcement, Wärtsilä highlights the potential for exhaust gas abatement systems to directly tackle maritime carbon dioxide (CO₂) emissions in the near future as the technology advances. This will enable manufacturers to design and upgrade scrubbers to capture carbon at the point of exhaust. Wärtsilä's continued research and development into carbon capture at the point of exhaust was further reinforced in October, as Wärtsilä and Solvang ASA, a Norwegian shipping company, agreed on a full-scale pilot retrofit installation of a CCS system for one of Solvang's ethylene carriers, the 21,000-cbm Clipper Eos.

In March, Wärtsilä launched grid balancing technology as part of a portfolio of products designed to cost effectively accelerate the energy transition. The portfolio consists of power plants, as well as energy storage and energy management systems. The first power plant solution in the portfolio is powered by the upgraded Wärtsilä 34SG Balancer engine, optimised for renewable baseload markets. The engine can ramp up to full load in two minutes, and can currently run on natural gas, biogas, synthetic methane, or hydrogen blends.

In June, Wärtsilä and the classification society RINA announced a novel ship propulsion arrangement that offers full redundancy, less machinery, lower capital expenditure, reduced operational complexity, and optimised fuel consumption to lower costs and achieve emissions compliance. The conventional approach in ship design has been to use 2-stroke engines for propulsion and 4-stroke engines for electric power generation. The Wärtsilä / RINA arrangement, however, requires just two 4-stroke dual-fuel (DF) engines, with options for electric power back-up from batteries or a small DF generator when the ship is idle. The design, featuring Wärtsilä 31DF engines operating with LNG fuel, can achieve a reduction of up to 50% from the Energy Efficiency Design Index (EEDI) reference level value, and immediate compliance with the IMO's 2030 targets.

In June, Wärtsilä announced that it would showcase its Power-to-X competence at the World Expo in Dubai in cooperation with Soletair Power and Q Power. The demonstration unit creates synthetic fuel from CO₂ extracted from the indoor air. Power-to-X technology can be seen as an important stepping stone along the

path towards carbon-neutral fuels and the decarbonisation of various industries.

In June, Wärtsilä and Schneider Electric announced that they have together developed a unique, end-to-end power system reference design. It is aimed specifically at lithium mine operations where there is no access to a grid supply of electricity. The solution contributes to sustainable lithium production by optimising the efficient delivery and use of energy, as well as by leveraging microgrids and enabling the use of renewable energy sources.

In July, Wärtsilä launched a major test programme towards carbon-free solutions with hydrogen and ammonia. The company is pioneering the adoption of hydrogen and ammonia as viable engine fuels through advanced testing in Wärtsilä's fuel-flexible combustion engines. Hydrogen and ammonia contain no carbon, meaning the combustion releases no CO₂ emissions. The full-scale engine test results are very encouraging, with one test engine performing very well when running on a fuel with 70% ammonia content at a typical marine load range. Tests were also completed successfully on another engine operating on pure hydrogen. For the energy market, Wärtsilä expects to have an engine and plant concept for pure hydrogen operation ready by 2025. For the marine market, Wärtsilä continued to run tests with an engine running on an ammonia blend, and anticipates having an ammonia engine concept ready in 2023. Wärtsilä is also developing ammonia storage and supply systems as part of the EU's ShipFC project. In addition, Wärtsilä will begin testing ammonia in a marine 4-stroke combustion engine together with Knutsen OAS, Repsol Norway and Equinor at the Sustainable Energy Catapult Centre in Stord, Norway, as part of the Demo2000 project.

In July, Wärtsilä Voyage's NTPRO (Navi-Trainer Professional 5000) navigational simulator was awarded certification according to the new DNV Class D standard for cloud-based simulators – making it the first certified cloud solution that offers both interactive instructor-led and student-led training. With this, the navigational simulator now has full compliance (Class A, B, C, D) with DNV's ST-0033 Maritime Simulator Systems standard. The maritime industry is in the process of identifying those learning events that can effectively be conducted remotely, and those that require a physical presence or team interactions at a training facility. Wärtsilä cloud solutions, however, are certified to provide both the

interactive exercise control required for mandatory training and examination, as well as self-directed detached exercise and assessment to enhance or supplement instructor controlled simulations.

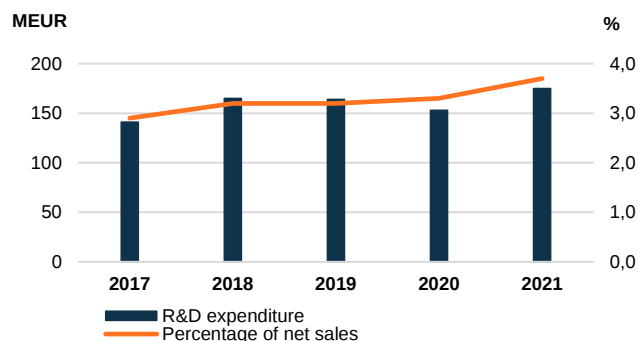
In August, Wärtsilä introduced an upgraded version of its successful Wärtsilä 20DF dual-fuel engine. The new version will deliver increased power output, have a reduced environmental impact, and will feature lower fuel consumption. It will also further increase the engine's fuel flexibility by allowing a much wider gas quality span. The engine's power per cylinder is increased from 185 to 195 kW, while methane slip is lowered by as much as 40%, thereby drastically reducing CO₂ emissions.

In September, the first vessel fitted with Wärtsilä battery containers, the 'Alphenaar', commenced operations in the Netherlands. The vessel transports beer for Heineken, the first customer of the service. Wärtsilä has developed and delivered this mobile battery container solution that will enable inland waterway vessels to operate with zero emissions. The 104 TEU inland waterway container vessel has been modified to allow two battery container units to be mounted onboard. The system enables the vessel to operate on full electric power alone, with no carbon emissions being generated. When discharged, the containers can be exchanged and charged onshore using energy from renewable sources.

In November, Wärtsilä announced that it will commercially launch its 2-stroke future fuels conversion platform during the first quarter of 2022. This innovative and patented engine combustion technology platform will enable the fast and cost-effective conversion of 2-stroke main engines to operate on clean-burning future fuels. This is seen as a major step in the maritime industry's efforts to achieve decarbonised shipping operations, while the easy retrofitting will avoid owners having to face long off-hire charter time. The retrofit conversion will initially enable operation with currently available LNG fuel, most importantly with negligible methane slip from the engine. The modular design of this concept provides a platform that will be further developed to allow for the adoption of alternative green fuels or fuel blends when they become commercially available. The development programme has recently been concluded with successful initial engine tests in the Wärtsilä 2-stroke engine laboratory in Trieste.

In November, Wärtsilä launched its new IQ Series exhaust gas treatment system. The IQ Series is the latest advancement in maritime exhaust gas treatment technologies, featuring several improvements that make the technology especially well-suited to container vessels, where it meets the demand for scrubbers as a compliance option. The IQ Series scrubber uses an innovative design that allows the same exhaust gas cleaning results to be achieved with a smaller footprint. The scrubber takes up 25% less space, is 30% lighter, and has 35% less volume, which minimises the impact on a vessel's cargo-carrying capacity, and therefore its profitability.

Research and development expenditure



Strategic projects

In January, Wärtsilä signed a letter of intent with the energy companies Vaasan Sähkö and EPV Energia and the City of Vaasa to cooperate in a project aiming at utilising emissions-free hydrogen in power production, industry, and traffic applications. The goal is to jointly build a Power-to-X-to-Power system in Vaasa, Finland and to pilot a hydrogen-based energy generation solution suitable for export markets.

In March, Wärtsilä made a further EUR 1 million investment in Soletair Power Oy, a Finnish company developing CO₂ direct air capture technology. The investment enables Soletair Power to further its global sales efforts and to scale up the manufacturing of its CO₂ capture solution for building ventilation applications.

Wärtsilä's original investment of EUR 500,000 in the company was made in 2019.

In April, Wärtsilä partnered with Tanger Med, the largest Mediterranean and African container port, to take a new step forward in global port efficiency by co-developing a new cutting-edge Port Management Information System (PMIS). Both organisations sealed their long-term commitment to deploy modern Smart Port tools for port operations and digitalisation – including implementing Just-In-Time (JIT) solutions, machine learning and artificial intelligence, as well as other innovative solutions. The new PMIS is aimed at addressing the needs of the leading maritime liners and alliances calling at Tanger Med Port Complex, to optimise their vessel calls, and to use standardised master and event data.

In June, Wärtsilä and Vantaa Energy Ltd, a Finnish utility, signed a co-operation agreement for the pre-engineering and development of a Power-to-Gas plant for Vantaa Energy. The plant, planned to be commissioned in 2025, would produce carbon-neutral, synthetic methane on a commercial scale with a fuel capacity of 10 MW. Synthetic methane is produced from captured carbon dioxide and hydrogen produced with renewable energy.

In July, Wärtsilä and the Korean shipbuilding company Samsung Heavy Industries (SHI) signed a joint development programme agreement aimed at developing ammonia-fuelled vessels with 4-stroke auxiliary engines for future newbuild projects. Wärtsilä has a leading role in developing engines for operation on future clean fuels. According to SHI, the most likely initial newbuild targets for ships utilising ammonia fuel will be container vessels and very large crude carriers, operating with 2-stroke main engines and 4-stroke Wärtsilä auxiliary engines.

In September, Wärtsilä advanced its carbon capture and storage (CCS) capabilities for maritime applications as part of the LINCCS (linking carbon capture and storage) consortium. The LINCCS project is focused on reducing costs for new carbon storage facilities by 70% and advancing the development of carbon capture technologies in a range of sectors. It was also announced that the LINCCS consortium would receive NOK 111 million from the Norwegian government's Green Platform Initiative over the next three years. Carbon capture technology can be a significant

enabler for the decarbonisation of the maritime industry, and one of the major workstreams of the LINCCS project is to bring to market a maritime CCS solution. Wärtsilä will lead this workstream with support from the Sustainable Energy Catapult Center and SINTEF Energy.

In October, Wärtsilä and Eidesvik Offshore ASA signed a landmark cooperation agreement aimed at converting an offshore supply vessel (OSV) to operate with an ammonia-fuelled combustion engine, and with the required fuel supply and safety system. This project will be the first of its kind ever in the world and has a provisional completion target by the end of 2023. The OSV considered for a retrofit currently has Wärtsilä dual-fuel engines operating primarily with LNG fuel. The conversion will allow the vessel to operate with a 70% ammonia blend. The ultimate goal is to achieve operation with 100% ammonia and with a minimum ignition fuel requirement.

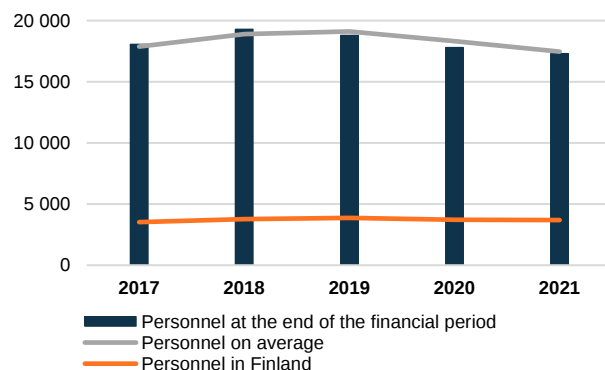
In November, Wärtsilä Voyage signed a landmark agreement with the Maritime and Port Authority of Singapore (MPA) to further strengthen their collaboration in smart port innovation and digitalisation. The main objectives of this strategic partnership are to initiate, develop, and promote innovative solutions that accelerate digitalisation; to foster interoperability in e-navigation and ship-to-shore secure data communications to enable port-to-port optimisation; and to establish reliable, cyber safe and cost-effective information exchange pathways between all ecosystem partners to increase operational efficacy.

Personnel

Wärtsilä had 17,305 (17,792) employees at the end of the year. On average, the number of personnel totalled 17,461 (18,307) in the year of 2021.

Of Wärtsilä's total number of employees, 21% (21) were located in Finland and 40% (41) elsewhere in Europe. Personnel employed in Asia represented 21% (22) of the total, personnel in the Americas 12% (11), and personnel in other countries 5% (5).

Personnel



Changes in management

Håkan Agnevall (b. 1966, M.Sc. (Tech), MBA) assumed the position of President and CEO for Wärtsilä Corporation on 1 February 2021. He succeeded Jaakko Eskola, who continued as a senior advisor to the Board and executive team until his retirement on 30 June 2021.

In August, Wärtsilä appointed Teija Sarajärvi (b. 1969, MA) as Executive Vice President, Human Resources and member of the Board of Management. Ms Sarajärvi commenced in her role on 1 January 2022, succeeding Ms Alid Dettke.

Non-financial report

Increasing environmental awareness, tightening regulations, customer preferences, and the need to decarbonise operations are resulting in fundamental changes in both the marine and energy industries. Wärtsilä is a global leader in innovative technologies and lifecycle solutions for the marine and energy markets. Wärtsilä emphasises innovation in sustainable technology and services to help its customers continuously improve their environmental and economic performance. Thanks to a broad range of technologies and specialised services, Wärtsilä is well positioned to shape decarbonisation in the marine and energy markets, and to reduce exhaust emissions and the use of natural resources. This

positioning supports customers in their efforts to limit their carbon footprint and achieve regulatory compliance. Wärtsilä's R&D efforts continue to focus on the development of advanced environmental technologies and solutions.

Wärtsilä 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 procurement.

Wärtsilä takes an active approach to the application of the Code of Conduct and promotes its implementation through effectively communicating its contents to all employees. The company monitors the application of the Code internally to ensure understanding and commitment throughout the organisation. As at the end of 2021, 16,712 employees, covering 94% 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 Wärtsilä's products and services. 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 the 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. In addition to enabling environmental compliance, this also supports the sustainable development of the marine and energy industries. Wärtsilä's products and solutions are

designed to reliably operate for up to 30 years. Therefore, focusing R&D efforts on improving 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 all its facilities.

Wärtsilä's quality, environmental, health and safety policy sets principles for managing the environmental impacts of the company'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 having R&D activities focused on product efficiency improvements and emissions reduction, as well as by developing a broad product offering, including technologies related to waste reduction, noise abatement, and effluent and ballast water treatment. During 2021, R&D expenditure totalled EUR 175 million, which represents 3.7% of net sales. The majority of these investments targeted improved environmental performance. Significant achievements related to sustainable innovation included progress made in developing engine technology to run on zero-carbon fuels.

For the marine markets, Wärtsilä continued to launch solutions that support its purpose to enable sustainable societies through innovation in technology and services. An upgraded version of the 20DF dual-fuel engine was introduced. The engine can now deliver more power with less energy consumption, while its methane slip is lowered by 40%. In the energy sector, Wärtsilä launched grid balancing technology as part of a portfolio of products designed to cost effectively accelerate the energy transition. The portfolio consists of power plants, as well as energy storage and energy management systems.

Wärtsilä announced its "Set for 30" commitment to achieve ambitious decarbonisation targets. Wärtsilä's goal is by 2030:

- To become carbon-neutral in its own operations, and
- To provide a product portfolio ready for zero-carbon fuels.

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. The company is a signatory to 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. These are followed by all Wärtsilä entities globally.

The objective of Wärtsilä's people strategy is to ensure that the businesses have the required skilled and motivated resources at their disposal. In order to develop their competences, employees are offered a wide variety of internal training courses, including topics covering 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 2021.

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 entities 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 2021, the corporate lost-time injury frequency rate was 1.55 (2.03).

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 to 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 policy on equal opportunities and fair employment practices, as well as being listed 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 the 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 high 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 on the relevant company policies and procedures. By the end of 2021, 88% of Wärtsilä's employees had participated in anti-corruption training sessions. Employees are encouraged to provide feedback and communicate suspected misconduct to line management or directly to the Compliance, Legal Affairs, or Internal Audit functions. Wärtsilä also has a dedicated tool through which employees can report infringements.

EU Sustainable Finance Taxonomy disclosures

Wärtsilä's aim is to shape decarbonisation in the marine and energy markets. Consequently, decarbonisation is at the core of the company's strategy. Wärtsilä's strong position, competences, and capabilities are critical enablers to successfully achieving these ambitions, and enabling its customers to decarbonise their economic activities.

Wärtsilä has a key role to play in decarbonising vessels and the overall shipping value chain. The company's extensive product and solution portfolio, including engines, propulsion systems, hybrid solutions, integrated powertrain systems, emission abatement solutions, and voyage optimisation solutions are key contributors towards zero-emissions shipping.

The energy and marine sectors still largely rely on the use of fossil fuels. Wärtsilä's current portfolio already enables its customers to switch to carbon-neutral fuels, such as biofuels or synthetic methane. Although the transition from fossil fuels to carbon-neutral or carbon-free fuels will happen gradually, Wärtsilä is already positioned to assist it by providing technologies that allow its customers to use more sustainable fuels as they become available.

In energy, Wärtsilä technologies enable the maximal and optimal usage of renewable energy generation. Flexible engine power plants, together with energy storage solutions, improve power system efficiency, lower greenhouse gas emissions, and safeguard the security of supply.

In 2021, Wärtsilä announced its goal to be able to provide a product portfolio ready for zero-carbon fuels. The company's aim is to support its customers on their decarbonisation journey, and thus shape the decarbonisation of the marine and energy sectors. Wärtsilä's products and solutions will meet the most stringent environmental requirements, and the fuel flexibility of the engines powering these sectors is key to enabling the transformation.

In July 2021, Wärtsilä launched a major test programme towards carbon-free solutions with hydrogen and ammonia fuels. Wärtsilä's fuel agnostic approach enables the company to support the energy and marine sectors in shaping sustainable and efficient future fuel strategies in several cost-optimal steps. The company has invested continuously and systematically in R&D and has made a long-term effort in product development focusing on fuel flexibility, energy efficiency, and emissions reduction. Already today, Wärtsilä engines can run on biofuels, methanol and hydrogen blends. For the energy market, Wärtsilä expects to have an engine and plant concept for pure hydrogen operation ready by 2025. For the marine market, Wärtsilä has already successfully tested an engine running with a fuel mix containing 70% ammonia. Wärtsilä anticipates having an engine concept with pure ammonia fuel available in 2023.

Wärtsilä has done its first preliminary assessment regarding its economic activities against the EU Sustainable Finance Taxonomy's first Delegated Act on Climate, as required by the Delegated Act on Article 8. Based on the preliminary assessment, Wärtsilä Taxonomy KPIs are as follows for the year 2021:

KPI	Total, MEUR	Eligible, %	Non-eligible, %
Turnover	4,778	8	92
CapEx	226	22	78
OpEx	176	8	92

Major parts of Wärtsilä's economic activities are currently not covered in the first Delegated Act on Climate. Services in Marine and Energy accounted for 52% of Wärtsilä's net sales in 2021. Services are a key enabler of installation uptime, reliability, reduced fuel consumption, and lower emissions. Services, however, are not included in the Taxonomy.

Wärtsilä has a key role to play in decarbonising vessels and the overall shipping value chain. The company's extensive product and solution portfolio, including engines, propulsion systems, hybrid solutions, integrated powertrain systems, and emission abatement solutions are key contributors towards zero-emissions shipping. However, they are all outside the taxonomy scope because only manufacturing of vessels – not vessel technologies or components – is included. In Energy, engines ready for carbon-neutral fuels, running on natural gas or other fossil fuels, are also excluded.

In total, 8% of Wärtsilä's turnover was estimated to be eligible, including the energy storage business, biogas solutions, and digital voyage optimisation solutions.

To be able to report these figures, Wärtsilä has assessed its economic activities against the economic activities included in the Delegated Act on Climate. Eligible economic activities have been identified by comparing the referred NACE codes in the Delegated Act to Wärtsilä's economic activities. In addition, the relevant thresholds for substantial contribution have been assessed in order to determine the economic activities' eligibility. Revenues, capital expenditure, and operating expenditure for eligible economic activities were collected from the accounting system.

KPI	Identified eligible economic activities	Notes
Turnover	• Energy storage business	Wärtsilä considers its energy storage business as a Taxonomy eligible economic activity. Wärtsilä energy storage solutions and energy management systems enable the effective storage of renewable electricity. Wärtsilä biogas solutions are considered to be eligible through the "manufacturing of other low carbon technologies" category. Digital voyage optimisation solutions are considered to be eligible through the "data driven solutions for GHG reduction" category. Wärtsilä did not consider any multifuel engine solutions to be eligible at this point.
	• Biogas solutions	
	• Digital voyage optimisation solutions	
CapEx	• New buildings (lease)	Any capex for a new building or a new vehicle is eligible. With respect to the capitalised R&D, eligibility follows the same logic as with the identified turnover KPI eligible activities. No CapEx related to taxonomy eligible manufacturing was identified.
	• Passenger cars and light commercial vehicles	
	• Capitalised R&D costs related to voyage optimisation	
OpEx	• Non-capitalised R&D costs related to future fuels	With respect to the non-capitalised R&D, eligibility follows the same logic as with the identified turnover KPI eligible activities. However, OpEx related to non-capitalised R&D for our engines' capability to run on future green and zero-carbon fuels was considered eligible because these fuels enable our customers to generate electricity from renewable non-fossil gaseous and liquid fuels in the future. No OpEx related to taxonomy eligible manufacturing was identified.
	• Non-capitalised R&D costs related to data solutions	

Reporting segments

Wärtsilä Marine Power

Marine Power's order intake in 2021 increased by 16% to EUR 2,011 million (1,737) compared to the previous year. Book-to-bill was 1.08 (0.99). Service order intake increased by 22% to EUR 1,305 million (1,070). Equipment order intake increased by 6% to EUR 706 million (667). The key segments that contributed to equipment order intake were merchant at 40%, cruise at 12%, ferry at 11%, and special vessels at 16%. The market conditions and price competition remained challenging. The order book at the end of the year increased by 8% to EUR 1,994 million (1,839).

Net sales increased by 7% to EUR 1,863 million (1,748) compared to the previous year. Service net sales increased by 12% to EUR

1,226 million (1,096), reflecting the reactivation of cruise vessels during the second half of the year. Equipment net sales decreased by 2% to EUR 637 million (652), due to a low order intake in previous periods. The comparable operating result amounted to EUR 195 million (137) or 10.5% of net sales (7.8). The result improvement was primarily driven by a favourable sales mix between equipment and services, the reactivation of cruise vessels and increased service volumes during the second half of the year, and efficiency improvement actions taken. Low factory load and cost inflation burdened profitability. Items affecting comparability comprised costs of EUR 15 million primarily related to the closure of the joint venture Wärtsilä CME in Zhenjiang, China and footprint optimisations concerning the new Smart Technology Hub in Vaasa, Finland.

Divestments

In May, Wärtsilä announced the divestment of Delivery Centre Santander to Javier Cavada Corporación Cantabria ("JCCC"). Delivery Centre Santander is a state-of-the-art foundry able to cast the highest grades of NiAlBronze alloys. The facility located in Santander, Northern Spain, employs 45 professionals and has an annual casting capacity of 700 tons. As part of the divestment, Wärtsilä and JCCC signed a strategic supply agreement whereby JCCC becomes a supplier for bronze alloy castings parts to Wärtsilä Marine Power. Subject to the fulfilment of closing conditions, closing of the transaction is expected in the first half of 2022.

Also in May, Wärtsilä and its joint venture partner Zhenjiang CME Co Ltd (CSSC Marine Power, owned by the CSSC group) announced the closure of the Wärtsilä CME joint venture in Zhenjiang, China. Some parts of the production and delivery activities of the joint venture have been moved to Propulsion Delivery Centre Wuxi (DCW) in China.

Wärtsilä Marine Systems

Marine Systems' order intake in 2021 increased by 55% to EUR 835 million (539) compared to the previous year. Book-to-bill was 1.28 (0.67). Service order intake increased by 14% to EUR 235 million (205). Equipment order intake increased by 80% to EUR 600 million (334). The order book at the end of the year increased by 22% to EUR 1,042 million (857), with growth in all business units with the exception of Exhaust Treatment.

Net sales decreased by 19% to EUR 654 million (808) compared to the previous year. Service net sales decreased by 4% to EUR 211 million (219), while equipment net sales decreased by 25% to EUR 444 million (588). The comparable operating result amounted to EUR 52 million (83) or 7.9% of net sales (10.3), as a consequence of decreased scrubber volumes and lower newbuild scrubber margins. Items affecting comparability comprised costs of EUR 4 million related to footprint adjustments and organisational optimisation.

Wärtsilä Voyage

Voyage's order intake in 2021 increased by 12% to EUR 292 million (262) compared to the previous year. Book-to-bill was 1.05 (1.06). Service order intake increased by 19% to EUR 109 million (92), while equipment order intake increased by 8% to EUR 183

million (170). Most of the pressure on orders seen in 2020 due to Covid-19 progressively dissipated throughout the year, as the industry adapted to the pandemic and customers got closer to a pre-pandemic business activity level. The order book at the end of the year increased by 5% to EUR 288 million (275).

Net sales increased by 13% to EUR 279 million (248) compared to the previous year. The increase was primarily a result of customer activity strengthening towards pre-pandemic levels, which allowed for the resumption of transactional service business and newbuild activity. Service net sales increased by 25% to EUR 105 million (85), while equipment net sales increased by 6% to EUR 174 million (163). The comparable operating result amounted to EUR -28 million (-41) or -9.9% of net sales (-16.5). The result was positively impacted by higher sales volumes, a more favourable sales mix between equipment and services, and efficiency improvement actions taken. At the same time, investments in digital competences and Covid-19 related challenges in the global utilisation of personnel burdened the operating result. Items affecting comparability comprised costs of EUR 12 million related to efficiency improvement programmes.

Wärtsilä Energy

Energy's order intake in 2021 increased by 48% to EUR 2,444 million (1,653) compared to the previous year. Book-to-bill was 1.31 (1.02). Service order intake increased by 9% to EUR 916 million (840), while equipment order intake increased by 88% to EUR 1,529 million (813). Demand for equipment was highest in the Americas. Wärtsilä was awarded important thermal power plant project contracts in the USA, Mexico, and Brazil. Activity in the storage market was strong with orders of over 3,000 MWh received. The order book at the end of the year increased by 31% to EUR 2,393 million (1,830).

Net sales increased by 15% to EUR 1,861 million (1,620) compared to the previous year. Service net sales increased by 14% to EUR 891 million (782), while equipment net sales increased by 16% to EUR 970 million (838). The comparable operating result amounted to EUR 136 million (101) or 7.3% of net sales (6.3). Good development in sales volumes and improved service capacity utilisation contributed to a positive margin development. Profitability was burdened by approximately EUR 20 million in net provisions arising from a detailed project risk review in the first quarter, under-absorption of factory capacity costs, and cost inflation.

Other business activities

Wärtsilä Portfolio Business

Portfolio Business' order intake in 2021 decreased by 9% to EUR 153 million (168) compared to the previous year, with growth in the American Hydro business unit, but a negative impact resulting from the divestments of certain business units completed in 2021. The order book at the end of the year decreased by 45% to EUR 142 million (257), mainly due to the exclusion of the divested business units' order books.

Net sales decreased by 33% to EUR 121 million (181) compared to the previous year, due to the divestments of certain business units completed in 2021. The comparable operating result amounted to EUR 2 million (-6) or 1.6% of net sales (-3.1), primarily thanks to improved profitability in the Water & Waste business unit. Items affecting comparability amounting to EUR 11 million were recognised as a result of divestments.

Divestments

In January, Wärtsilä announced the divestment of 100% of its shares in the Entertainment business, Wärtsilä Funa GmbH, to Videlio SA, a French public limited company. The former Wärtsilä business is engaged in the design, fabrication, engineering, and integration of entertainment systems, illumination, light control, cabin control, and 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. Its annual revenues were approximately EUR 50 million in 2020. The transaction was completed in April.

In March, Wärtsilä announced the divestment of 100% of its shares in Wärtsilä Euroatlas GmbH to Mimir, a global investment firm based in Sweden. The former Wärtsilä business provides its global customer base with tailor-made solutions for high-performance power conversion in naval, aviation, and mobile land-based applications requiring the highest reliability and power density, and leading-edge energy efficiency under harsh environmental conditions. The company became part of Wärtsilä as a result of the acquisition of L-3 Communications MSI in 2015 and has 79

employees based in Bremen, Germany. The transaction was completed in July.

In September, Wärtsilä announced the divestment of its Tank Control Systems business to Svanehøj, a Danish gas pump specialist involved in the design and manufacture of specialised deep well pump solutions. Wärtsilä Tank Control Systems designs, manufactures, sells, and services high-end measurement systems for gas tanks on LNG ships, offshore storage, and land-based LNG terminals. Tank Control Systems is also a leading supplier of safety products and associated systems and solutions for LPG land-based storage and underground cavern storage. The business became part of Wärtsilä as a result of the acquisition of Total Automation in 2006 and has approximately 50 employees based in the UK, France and Singapore with revenues of EUR 7.5 million in 2020. The transaction was completed in January 2022.

Risks and business uncertainties

New variants of Covid-19 and the measures taken to contain its spread represent the main short- and mid-term risk to the demand for equipment and services, as they impact global energy consumption, seaborne trade, as well as consumer confidence in cruise and ferry transportation. Mobility restrictions continue to affect business operations, project delivery schedules, and the ability to perform services. Disruptions to global supply chains and Covid-19 related quarantines and personnel sick leave may impact factory activities and the delivery of spare parts, while generating risks in terms of raw material and component prices and availability, as well as transportation costs. Whilst the roll-out of vaccines is proceeding well overall, there is still uncertainty over the duration of the pandemic, the effectiveness of the vaccines on new variants of Covid-19, and how quickly country level vaccination programmes are implemented on a global scale, especially in developing countries.

The shipping and shipbuilding markets are faced with increasing regulatory, financial, and end-customer pressure to decarbonise their operations. Uncertainties around the development and deployment of suitable future technologies may affect the investment appetite of ship owners and operators, concerning both newbuilding programmes and the management of existing fleets. At the same time, the limited development of alternative fuel infrastructures, the substantial price gap between conventional and

alternative fuels, and uncertainties concerning the regulatory environment and the uptake of new technology may raise barriers for the green transition.

The travel bans still in force, the limited ability or desire of people to travel, and a new escalation of Covid-19 cases pose risks to the recovery of the cruise and ferry markets. In the offshore oil and gas industry, the uncertainty around future demand for crude oil and oil price volatility are pushing oil majors to re-evaluate their spending on exploration activities and operational costs, which might lead to an increasing number of laid-up drilling units and support vessels. The volatility of oil prices also affects the price spread between high- and low-sulphur fuels. A narrower price differential, or weaker future availability of high-sulphur fuel, might weaken the case for scrubber investments. The prevailing market conditions may result in continued price pressure.

In the energy markets, despite economic activity growing globally, the prevailing Covid-19 pandemic, currency fluctuations, and potential financing constraints are likely to postpone investment decisions on new power generation capacity. Many countries are still struggling with the pandemic, which limits their ability to implement new infrastructure projects. Similarly, the energy transition may temporarily be slowed, 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 and implementation timelines. 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 technology choices for customers. 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. Gas price volatility and increasing prices may impact the competitiveness of thermal baseload gas plants, but are not expected to have a major impact on thermal balancing power. In addition, there are risks related to the efficient and fast scaling up of the energy storage business and resources to meet the increasing market demand.

The volatility of the geopolitical environment, and the potential enforcement of sanctions or embargos, pose a potential risk to the

customer relations and international business activities of the company. With the rapidly growing use of data in shipping and shipbuilding, as well as in the energy markets, cyber threats can potentially result in various forms of financial, operational, or reputational damage to the business.

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 2021, the number of shares traded on Nasdaq Helsinki was 433,886,295, equivalent to a turnover of EUR 4,561 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 32,692,101 shares.

Flagging notifications

Wärtsilä was not informed of any changes in ownership during 2021.

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting, held on 4 March 2021, approved the financial statements, reviewed the Remuneration Policy and Remuneration Report 2020 for Governing Bodies, and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2020.

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 Tiina Tuomela.

The audit firm PricewaterhouseCoopers Oy was elected as the company's auditor for the year 2021.

Dividend distribution

The Annual General Meeting approved the Board of Directors' proposal to pay a dividend of EUR 0.20 per share in two instalments. The first instalment of EUR 0.10 per share was paid on 15 March 2021 and the second instalment of EUR 0.10 per share on 20 September 2021.

Authorisation to repurchase the company's own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 57,000,000 shares in the Company. Shares may be repurchased also otherwise than in proportion to the shareholders' holding in the Company. 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 decision by the Annual General Meeting.

Wärtsilä shares on Nasdaq Helsinki

31.12.2021	Number of shares outstanding	Number of treasury shares	Number of shares and votes	Number of shares traded 1-12/2021
WRT1V	590,023,390	1,700,000	591,723,390	433,886,295
1.1.-31.12.2021	High	Low	Average*	Close
Share price	13.87	7.78	10.51	12.36
*Trade-weighted average price				
Market capitalisation			31.12.2021	31.12.2020
MEUR			7,314	4,823
Foreign shareholders			31.12.2021	31.12.2020
%			52.7	50.7

Authorisation to issue shares

The Board of Directors was authorised to resolve to issue a maximum of 57,000,000 shares in the Company. The shares can be issued for consideration or without consideration. They can also be issued in deviation from the shareholders' pre-emptive rights by way of a directed issue if there is a weighty financial reason for the Company to do so. A directed issue may be decided upon to develop the capital structure of the Company or to finance or carry out acquisitions or other arrangements. Additionally, the authorisation can also be used as part of the Company's incentive schemes for up to 10,000,000 shares, which represents 1.69% of all the shares in the Company. The authorisation for the Board of Directors to issue shares shall be valid for 18 months from the decision by the Annual General Meeting. However, the authorisation regarding incentive schemes shall be valid for five years from the decision. This authorisation revokes the authorisation given by the Annual General Meeting on 5 March 2020 to issue shares.

Organisation of the Board of Directors

Convening after the Annual General Meeting, the Board of Directors elected Tom Johnstone as its Chair and Risto Murto as the Deputy Chair. 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 Tiina Tuomela, Maarit Aarni-Sirviö, Risto Murto

People Committee: Chair Maarit Aarni-Sirviö, Johan Forssell, Tom Johnstone

WÄRTSILÄ'S PROSPECTS FOR 2022

Wärtsilä expects the demand environment in the first quarter to be better than that of the corresponding period in the previous year. However, the prevailing market conditions make the outlook uncertain.

BOARD OF DIRECTORS' DIVIDEND PROPOSAL

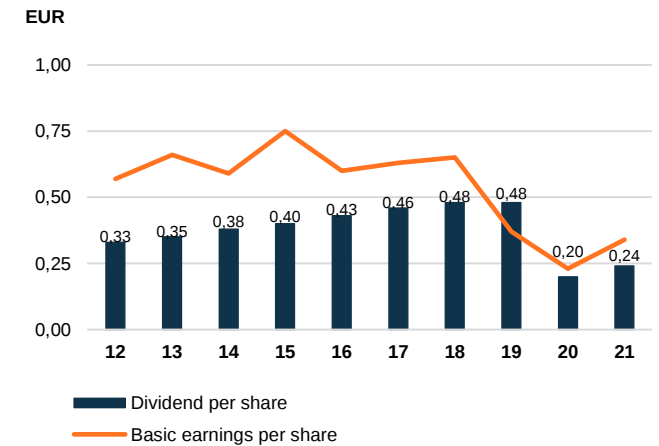
The Board of Directors proposes that a dividend of EUR 0.24 per share be paid for the financial year 2021. The parent company's distributable funds total EUR 1,025,711,618.25, which includes EUR 188,242,150.86 in net profit for the year. There are 590,023,390 shares with dividend rights. The dividend shall be paid in two instalments.

The first instalment of EUR 0.12 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 7 March 2022. The payment day proposed by the Board for this instalment is 14 March 2022.

The second instalment of EUR 0.12 per share shall be paid in October 2022. 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 27 September 2022. The dividend record day for the second instalment as per the current rules of the Finnish book-entry system would be 29 September 2022 and the dividend payment day 6 October 2022.

Dividend



The free share issue approved by Wärtsilä Corporation's Annual General Meeting on 8 March 2018 increased the total number of Wärtsilä shares to 591,723,390. Figures for the comparison periods 2011-2017 have been adjusted to reflect the increased number of shares.

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	2021	2020	2019	2018	2017*
Net sales	4,778	4,604	5,170	5,174	4,911
of which outside Finland	% 98.5	97.9	98.5	98.9	97.7
Exports from Finland	1,845	1,702	1,933	2,145	1,953
Personnel on average	17,461	18,307	19,110	18,899	17,866
of which in Finland	3,687	3,706	3,868	3,766	3,521
Order book	5,859	5,057	5,878	6,166	5,100
From the consolidated statement of income					
Depreciation, amortisation and impairment	162	174	180	130	134
Share of result of associates and joint ventures	3	3	-9	13	13
Comparable operating result	357	275	457	577	576
as a percentage of net sales	% 7.5	6.0	8.8	11.2	11.7
Operating result	314	234	362	543	538
as a percentage of net sales	% 6.6	5.1	7.0	10.5	11.0
Comparable adjusted EBITA	388	308	498	621	612
as a percentage of net sales	% 8.1	6.7	9.6	12.0	12.5
Financial income and expenses	-18	-43	-47	-40	-47
Profit before taxes	296	191	315	502	491
as a percentage of net sales	% 6.2	4.2	6.1	9.7	10.0
Profit for the financial period	193	133	218	386	375
as a percentage of net sales	% 4.0	2.9	4.2	7.5	7.6
From the consolidated statement of financial position					
Non-current assets	2,539	2,427	2,518	2,369	2,285

Current assets	3,982	3,706	3,797	3,690	3,363
Assets held for sale	2	99	82	-	-
Total equity attributable to equity holders of the parent company	2,315	2,177	2,396	2,418	2,352
Non-controlling interests	8	11	14	14	24
Interest-bearing debt	973	1,327	1,096	823	619
Non-interest-bearing liabilities	3,227	2,648	2,824	2,804	2,653
Liabilities directly attributable to assets held for sale		68	68	-	-
Total equity and liabilities	6,523	6,232	6,398	6,059	5,648
From the consolidated statement of cash flows					
Cash flow from operating activities	731	681	232	470	430
Cash flow from investing activities	-128	-55	-95	-240	-235
Cash flow from financing activities	-580	-44	-256	-118	-278
Gross capital expenditure	143	117	122	306	255
as a percentage of net sales	% 3.0	2.5	2.4	5.9	5.2
Research and development expenditure	175	153	164	165	141
as a percentage of net sales	% 3.7	3.3	3.2	3.2	2.9
Dividends paid	142**	118	284	284	272
Financial ratios					
Earnings per share (EPS), basic***	EUR 0.33	0.23	0.37	0.65	0.63
Earnings per share (EPS), diluted***	EUR 0.33	-	-	-	-
Dividend per share***	EUR 0.24**	0.20	0.48	0.48	0.46
Dividend per earnings	% 73.2**	88.2	130.8	73.7	70.8
Interest coverage	15.0	7.1	7.7	10.8	11.8
Return on investment (ROI)	% 9.7	7.1	11.5	18.1	18.5
Return on equity (ROE)	% 8.6	5.8	9.0	16.1	16.0
Solvency ratio	% 38.6	38.1	40.8	44.4	46.3
Gearing	0.00	0.18	0.30	0.14	0.10
Equity per share***	EUR 3.92	3.68	4.05	4.09	3.97
Working capital (WCAP)	EUR -100	257	732	581	563

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	10–12/2021	7–9/2021	4–6/2021	1–3/2021	10–12/2020	7–9/2020	4–6/2020	1–3/2020	10–12/2019
Order intake									
Marine Power*	659	443	463	446	440	410	391	496	656
Marine Systems*	308	191	183	153	133	174	119	113	147
Voyage*	93	53	60	86	55	44	56	107	93
Energy*	1,031	486	433	493	469	319	390	475	585
Portfolio Business*	59	14	14	66	21	34	55	57	74
Total	2,150	1,186	1,154	1,244	1,118	981	1,011	1,247	1,555
Order book at the end of the financial period									
Marine Power*	1,994	1,930	1,860	1,882	1,839	1,908	1,913	1,967	2,019
Marine Systems*	1,042	944	912	887	857	872	902	1,051	1,232
Voyage*	288	280	295	305	275	289	305	304	274
Energy*	2,393	2,056	2,035	2,029	1,830	1,865	1,939	2,087	2,014
Portfolio Business*	142	115	135	297	257	331	341	336	338
Total	5,859	5,325	5,238	5,399	5,057	5,265	5,401	5,745	5,878
Net sales									
Marine Power*	589	382	466	426	489	382	420	457	603
Marine Systems*	221	142	150	142	167	169	238	234	279
Voyage*	84	68	68	59	68	54	56	69	82
Energy*	670	487	416	288	465	347	457	351	648
Portfolio Business*	32	25	31	33	30	43	48	59	71
Total	1,597	1,103	1,131	946	1,220	995	1,220	1,170	1,684
Share of result of associates and joint ventures	1	1	1	1			1	1	-2
Comparable adjusted EBITA	165	95	79	49	111	69	63	65	213
as a percentage of net sales	10.4	8.6	7.0	5.1	9.1	7.0	5.2	5.6	12.6
Depreciation, amortisation and impairment	-40	-41	-42	-39	-49	-47	-38	-39	-39
Purchase price allocation amortisation	-8	-8	-8	-8	-8	-8	-8	-9	-10
Comparable operating result	158	87	71	41	103	61	55	56	202
as a percentage of net sales	9.9	7.9	6.3	4.3	8.4	6.1	4.5	4.8	12.0

Items affecting comparability, total	-14	-12	-14	-4	-13	-18	-6	-4	-39
Operating result	144	75	58	36	90	43	49	52	164
as a percentage of net sales	9.0	6.8	5.1	3.8	7.4	4.3	4.0	4.5	9.7
Financial income and expenses	-10	-1	-5	-1	-12	-9	-13	-9	-11
Profit before taxes	134	74	53	35	78	34	36	43	153
Income taxes	-49	-25	-18	-11	-23	-9	-12	-14	-51
Profit for the financial period	85	50	35	24	55	25	23	29	102
Earnings per share (EPS), basic, EUR	0.14	0.08	0.06	0.04	0.10	0.04	0.04	0.05	0.17
Earnings per share (EPS), diluted, EUR	0.14	0.08	0.06	-	-	-	-	-	-
Gross capital expenditure	45	35	34	29	38	25	27	27	44
Investments in securities and acquisitions	1				1	1			2
Cash flow from operating activities	370	49	245	67	274	114	252	42	295
Working capital (WCAP) at the end of the financial period	-100	107	73	243	257	431	492	660	732
Personnel at the end of the financial period**									
Marine Power*	8,224	8,157	8,131	8,317	8,355	8,412	8,674	8,934	8,820
Marine Systems*	1,894	1,891	1,882	1,864	1,897	1,891	1,846	1,862	1,870
Voyage*	1,725	1,799	1,865	1,925	1,915	1,946	1,917	1,939	1,889
Energy*	4,980	4,975	4,953	4,905	4,888	4,837	4,799	4,819	5,137
Portfolio Business*	482	481	555	732	737	1,097	1,098	1,088	1,080
Total	17,305	17,303	17,386	17,742	17,792	18,183	18,334	18,642	18,795

* 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.

** 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

Profit for the financial period attributable to equity holders of the parent company

Number of shares outstanding, average over the financial period

Earnings per share (EPS), diluted

Profit for the financial period attributable to equity holders of the parent company

Number of shares outstanding, average over the financial period + number of potential ordinary shares with dilutive effect

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

Number of shares outstanding 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

Equity, average over the financial period x 100

Order intake

Total amount of orders received during the financial period to be delivered either during the current financial period or thereafter.

Order book

The presentation in value of orders that are placed by customers but not yet delivered. For service agreements, only the expected net sales for the next 24 months are included in the order book.

Working capital (WCAP)

(Inventories + trade receivables + current tax receivables + other non-interest-bearing receivables)

– (trade payables + advances received + pension obligations + provisions + current tax liabilities + other non-interest-bearing liabilities – dividend payable)

Interest coverage

Profit before taxes + depreciation, amortisation and impairment + interest and other financial expenses

Interest and other financial expenses

Dividend per share

Dividends paid for the financial period

Number of shares outstanding at the end of the financial period

Dividend per earnings

Dividend per share

Earnings per share (EPS), basic x 100

Effective dividend yield

Dividend per share

Adjusted share price at the end of the financial period x 100

Price/earnings (P/E)

Adjusted share price at the end of the financial period

Earnings per share (EPS), basic

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	2021	2020	Note
Net sales	4,778	4,604	2.1., 2.2.
Change in inventories of finished goods & work in progress	4	-104	
Work performed by the Group and capitalised	18	19	
Other operating income	85	61	2.3.
Material and services	-2,714	-2,551	2.4.
Employee benefit expenses	-1,230	-1,192	2.5.
Result from net position hedges	-2	-1	
Depreciation, amortisation and impairment	-162	-174	3.5.
Other operating expenses	-467	-431	2.3.
Share of result of associates and joint ventures	3	3	6.4.
Operating result	314	234	
as a percentage of net sales	6.6	5.1	
Financial income	15	16	5.1.
Financial expenses	-33	-59	5.1.
Profit before taxes	296	191	
Income taxes	-103	-58	2.6.
Profit for the financial period	193	133	

Attributable to:			
equity holders of the parent company	194	134	2.7.
non-controlling interests		-1	
	193	133	
Earnings per share attributable to equity holders of the parent company:			
Earnings per share (EPS), basic, EUR	0.33	0.23	2.7.
Earnings per share (EPS), diluted, EUR	0.33	-	2.7.

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MEUR	2021	2020	Note
Profit for the financial period	193	133	
Other comprehensive income, net of taxes:			
Items that will not be reclassified to the statement of income			
Remeasurements of defined benefit liabilities	10	6	
Tax on items that will not be reclassified to the statement of income	-2	-1	
Total items that will not be reclassified to the statement of income	9	5	
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	72	-74	
for non-controlling interests	-1	-1	
transferred to the statement of income		-6	
Associates and joint ventures, share of other comprehensive income	3	-2	
Cash flow hedges			
measured at fair value	-13	-3	5.5.
transferred to the statement of income	4	6	
Tax on items that may be reclassified to the statement of income			
Cash flow hedges			
measured at fair value	2		
transferred to the statement of income	-1	-1	
Total items that may be reclassified to the statement of income	65	-81	
Other comprehensive income for the financial period, net of taxes	73	-76	
Total comprehensive income for the financial period	267	57	

Total comprehensive income attributable to:		
equity holders of the parent company	268	59
non-controlling interests	-1	-1
	267	57

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MEUR	31.12.2021	31.12.2020	Note
Assets			
Non-current assets			
Goodwill	1,374	1,325	3.1.
Intangible assets	401	391	3.2.
Property, plant and equipment	312	282	3.3.
Right-of-use assets	192	162	3.4.
Investments in associates and joint ventures	27	23	6.4.
Other investments	18	19	5.2.
Interest-bearing investments	5	1	5.2.
Deferred tax assets	167	183	4.6.
Trade receivables	26	30	4.2., 5.2.
Other receivables	17	11	4.3.
Total non-current assets	2,539	2,427	
Current assets			
Inventories	1,185	1,192	4.1.
Trade receivables	870	922	4.2., 5.2.
Current tax receivables	33	27	
Contract assets	684	389	4.2.
Other receivables	246	258	4.3.
Cash and cash equivalents	964	919	5.3., 5.4.
Total current assets	3,982	3,706	
Total assets	6,523	6,232	
Equity and liabilities			
Equity			
Share capital	336	336	5.5.
Share premium	61	61	5.5.
Translation differences	-122	-197	5.5.

Fair value reserve	-18	-9	5.5.
Remeasurements of defined benefit liabilities	-36	-45	4.7.
Retained earnings	2,094	2,030	
Total equity attributable to equity holders of the parent company	2,315	2,177	
Non-controlling interests	8	11	
Total equity	2,323	2,188	
Liabilities			
Non-current liabilities			
Lease liabilities	157	124	3.4., 5.4.
Other interest-bearing debt	694	1,005	5.2., 5.4., 5.6.
Deferred tax liabilities	65	76	4.6.
Pension obligations	126	139	4.7.
Provisions	73	55	4.5.
Contract liabilities	37	51	4.2.
Other liabilities	1	1	3.4., 4.4.
Total non-current liabilities	1,153	1,451	
Current liabilities			
Lease liabilities	39	42	3.4., 5.4.
Other interest-bearing debt	82	156	5.2., 5.4., 5.6.
Provisions	241	269	4.5.
Trade payables	714	411	4.4., 5.2., 5.6.
Current tax liabilities	63	56	
Contract liabilities	1,231	926	4.2.
Other liabilities	676	664	3.4., 4.4.
Total current liabilities	3,047	2,524	
Total liabilities	4,199	3,975	
Total equity and liabilities	6,523	6,232	

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

MEUR	2021	2020	Note
Cash flow from operating activities:			
Profit for the financial period	193	133	
Adjustments for:			
Depreciation, amortisation and impairment	162	174	3.5.
Financial income and expenses	18	43	5.1.
Gains and losses on sale of intangible assets and property, plant and equipment and other changes		-9	
Share of result of associates and joint ventures	-3	-3	6.4.
Income taxes	103	58	2.6.
Other non-cash flow adjustments	6	7	
Cash flow before changes in working capital	478	403	
Changes in working capital:			
Receivables, non-interest-bearing, increase (-) / decrease (+)	-177	338	
Inventories, increase (-) / decrease (+)	29	122	4.1.
Liabilities, non-interest-bearing, increase (+) / decrease (-)	512	-32	
Changes in working capital	363	428	
Cash flow from operating activities before financial items and taxes	841	832	
Financial items and taxes:			
Interest income	5	4	
Interest expenses	-16	-14	
Other financial income and expenses	1	-19	
Income taxes paid	-100	-122	
Financial items and paid taxes	-111	-150	
Cash flow from operating activities	731	681	
Cash flow from investing activities:			
Acquisitions		-1	6.1.

Other investments	-1	-1	5.2.
Investments in property, plant and equipment and intangible assets	-142	-115	3.2., 3.3.
Proceeds from sale of property, plant and equipment and intangible assets	5	13	3.2., 3.3.
Proceeds from sale of shares in subsidiaries	10	22	6.2.
Proceeds from sale of shares in associates and joint ventures		27	6.4.
Cash flow from investing activities	-128	-55	
Cash flow after investing activities	603	627	
Cash flow from financing activities:			
Repurchase of own shares	-18		
Proceeds from non-current debt		317	
Repayments and other changes in non-current debt	-433	-76	5.6.
Loan receivables, increase (-) / decrease (+)	-4	1	
Current loans, increase (+) / decrease (-)	-4		
Dividends paid	-121	-286	
Cash flow from financing activities	-580	-44	
Change in cash and cash equivalents, increase (+) / decrease (-)	22	582	
Cash and cash equivalents at the beginning of the financial period*	932	369	
Exchange rate changes	10	-19	
Cash and cash equivalents at the end of the financial period*	964	932	

* Cash and cash equivalents 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 2021	336	61	-197	-9	-45	2,030	2,177	11	2,188
Translation differences			74				74	-1	74
Cash flow hedges									
net change in fair value, net of taxes				-11			-11		-11
transferred to the statement of income, net of taxes				2			2		2
Defined benefit plans					9		9		9
Other comprehensive income			74	-9	9		74	-1	73
Profit for the financial period						194	194		193
Total comprehensive income for the financial period			74	-9	9	194	268	-1	267
Transactions with equity holders of the parent company and non-controlling interests									
Dividends paid						-118	-118	-2	-120
Repurchase of own shares						-18	-18		-18
Share-based payments						7	7		7
Equity on 31 December 2021	336	61	-122	-18	-36	2,094	2,315	8	2,323

MEUR	Share capital	Share premium	Translation difference	Fair value reserve	Total equity attributable to equity holders of the parent company			Non-controlling interests	Total equity
					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 AND OTHER DISCLOSURE REQUIREMENTS

Content in this section:

- 1.1. ENTITY INFORMATION
 - 1.2. BASIS OF PREPARATION
 - 1.3. NEW AND AMENDED IFRS STANDARDS
 - 1.4. MANAGEMENT JUDGEMENT AND USE OF ESTIMATES
 - 1.5. CHANGES IN ACCOUNTING PRINCIPLES
-

Majority of the accounting principles applied to the consolidated financial statements, as well as the most significant judgements, estimates, and assumptions made by the management, are presented in the relevant Notes to provide readers a better understanding of the financial statements.

1.1. ENTITY 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 2021, Wärtsilä's net sales totalled EUR 4.8 billion with approximately 17,500 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 2022, 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 2021. 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 2021, the Group has adopted the following amended standards issued by the IASB.

Covid-19-Related Rent Concessions beyond 30 June 2021 amends IFRS 16 Leases (effective for financial periods beginning on or after 1 April 2021) by extending the validity of the practical expedient introduced already in 2020, which simplified how a lessee accounts for rent concessions that are a direct consequence of the COVID-19 pandemic by one year. The amendment does not have a significant impact on the consolidated financial statements.

The IBOR reform phase 2 amendments to IFRS 9 and IFRS 7 (effective for financial periods beginning on or after 1 January 2021) relate to matters that might affect financial reporting when an existing interest rate benchmark is replaced. The amendments explain how to account for changes on the basis for determining contractual cash flows as a result of IBOR reform, provide additional temporary exceptions from applying specific hedge accounting requirements to avoid discontinuation of hedge relationships solely due to IBOR reform. The amendments also include additional IFRS 7 disclosures related to the reform. The amendments do not have a significant impact on the consolidated financial statements.

Other new or amended standards and interpretations already effective do not have a significant impact on the consolidated financial statements or other disclosures.

In 2022 or later, the Group will adopt the following new or amended standards issued by the IASB.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (effective for financial periods beginning on or after 1 January 2022) 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) 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.

Reference to the Conceptual Framework amends IFRS 3 Business combinations (effective for financial periods beginning on or after 1 January 2022). The amendments update the reference to the 2018 Conceptual Framework, as well as add an exception to the recognition principle for liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21. In addition, the amendments add clarification on the prohibition to recognise contingent assets at the acquisition date. The amendments will have no impact on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements* (effective for financial periods beginning on or after 1 January 2023) 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.

Disclosure of Accounting policies* amends IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (effective for financial periods beginning on or after 1 January 2023). The amendments to IAS 1 require companies to disclose material accounting policy information instead of significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the materiality concept to accounting policy disclosures. The amendments are not expected to have a significant impact on the consolidated financial statements.

Definition of Accounting Estimates* amends IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial periods beginning on or after 1 January 2023). The amendments define both the concept of accounting estimates and changes in those. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. In addition, the amendments provide clarification on how changes in accounting estimates differ from changes in accounting policies and corrections of errors. The amendments will have no impact on the consolidated financial statements.

Amendments to IAS 12 Income taxes* (effective for financial periods beginning on or after 1 January 2023) require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. The impact is under review within the Group.

IFRS 17 Insurance Contracts (effective for financial periods beginning on or after 1 January 2023) 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.

Other new or amended standards and interpretations not yet effective are not expected to have a significant impact on the consolidated financial statements or other disclosures.

* Not yet endorsed for use by the European Union as of 31 December 2021.

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.

1.5. CHANGES IN ACCOUNTING PRINCIPLES

Financial assets and liabilities recognised at fair value through other comprehensive income include the effective portion of derivatives eligible for hedge accounting. Financial assets and liabilities measured at fair value through the statement of income includes derivatives that are not eligible for hedge accounting.

Starting as of 1 January 2021, Wärtsilä has revised the accounting principles regarding presentation of the result from derivatives. Gains and losses on derivatives not included in hedge accounting, as well as ineffectiveness arising from hedges included in hedge accounting, are recognised in other operating income, other operating expenses or financial income and expenses depending on where the underlying hedged item is recognised in the statement of income. Wärtsilä continues to recognise the time value of derivatives in financial income and expenses.

The purpose of this change is to align the presentation of the hedging result in the statement of income with the presentation of the hedged item. This change in the accounting principles does not have a significant impact on the consolidated financial statements.



2. GROUP FINANCIAL PERFORMANCE

Content in this section:

- 2.1. SEGMENT INFORMATION
- 2.2. REVENUE RECOGNITION
- 2.3. OTHER OPERATING INCOME AND EXPENSES
- 2.4. MATERIAL AND SERVICES
- 2.5. EMPLOYEE BENEFIT EXPENSES
- 2.6. INCOME TAXES
- 2.7. EARNINGS PER SHARE

2.1. SEGMENT INFORMATION

Wärtsilä's reportable segments are Wärtsilä Marine Power, Wärtsilä Marine Systems, Wärtsilä Voyage, and Wärtsilä Energy. Furthermore, Wärtsilä reports Wärtsilä Portfolio Business 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.

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

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

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.

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

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 Tank Control Systems, Water & Waste, as well as American Hydro, the hydropower solution and turbine service business.

Portfolio Business also included business units Entertainment Systems and Special Products until the divestments. In April 2021, Wärtsilä divested 100% of the shares in its Entertainment Systems business unit, Wärtsilä Funa GmbH. In July 2021, Wärtsilä divested 100% of the shares in Wärtsilä EUROATLAS GmbH, which belonged to Special Products business unit.

2021

MEUR	Marine Power	Marine Systems	Voyage	Energy	Portfolio Business	Total
Net sales	1,863	654	279	1,861	121	4,778
Depreciation, amortisation and impairment	-73	-20	-23	-31	-14	-162
Share of result of associates and joint ventures	3					3
Operating result	180	47	-39	134	-9	314
as a percentage of net sales (%)	9.7	7.2	-14.1	7.2	-7.5	6.6
Comparable operating result	195	52	-28	136	2	357
as a percentage of net sales (%)	10.5	7.9	-9.9	7.3	1.6	7.5

2020

MEUR	Marine Power	Marine Systems	Voyage	Energy	Portfolio Business	Total
Net sales	1,748	808	248	1,620	181	4,604
Depreciation, amortisation and impairment	-68	-20	-27	-32	-28	-174
Share of result of associates and joint ventures	2					3
Operating result	134	81	-42	91	-29	234
as a percentage of net sales (%)	7.7	10.0	-17.0	5.6	-16.2	5.1
Comparable operating result	137	83	-41	101	-6	275
as a percentage of net sales (%)	7.8	10.3	-16.5	6.3	-3.1	6.0

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 to 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	2021	2020
Comparable adjusted EBITA	388	308
Purchase price allocation amortisation	-31	-33
Comparable operating result	357	275
Items affecting comparability:		
Social plan costs	-14	-12
Impairment and write-downs	-10	-22
Profits and losses from disposals	-1	6
Other costs	-18	-14
Items affecting comparability, total	-43	-41
Operating result	314	234

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 2021 and 1 January - 31 December 2020 Wärtsilä did not have any individual significant customers or countries. Of the total net sales, sales to the USA represented 16% (11) and sales to China 9% (10).

MEUR	2021	2020
Net sales		
Finland	73	98
Other European countries	1,518	1,445
Asia	1,464	1,570
The Americas	1,286	1,077
Other	437	415
Total	4,778	4,604
Non-current assets		
Finland	409	329
Other European countries	1,533	1,515
Asia	112	97
The Americas	246	235
Other	7	6
Total	2,307	2,183

Service net sales

MEUR	2021	2020
Net sales		
Marine Power, service	1,226	1,096
Marine Systems, service	211	219
Voyage, service	105	85
Energy, service	891	782
Portfolio Business, service	67	74
Total	2,499	2,255

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. Variable consideration is included in the revenue only to the extent that it is highly probable that the amount will not be subject to significant reversal. 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.

Wärtsilä focuses on the marine and energy markets with products, solutions, and services. Revenue from contracts with customers is derived from four revenue types: products, goods and services, projects and long-term agreements. 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 energy storages in Energy, and gas solutions construction contracts in Marine Systems, 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. The progress is measured by using the cost-to-cost method, where sales and profits are recognised after considering the ratio of accumulated costs to estimated total costs to complete each contract. 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. Tailor-made equipment sales are mainly in Marine Power and in Marine Systems. 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. Measuring progress is based on cost-to-cost method, costs of actual services provided as a proportion of the costs of total services to be rendered. These contracts generally contain one performance obligation per installation. Long-term agreements mainly generate revenue in Energy and in Marine Power.

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 and timing of satisfying performance obligations

2021

MEUR	Marine Power	Marine Systems	Voyage	Energy	Portfolio Business	Total
At a point in time						
Products	632	137	22	351	23	1,165
Goods and services	321	65	50	92	8	535
Projects	681	183	130	298	39	1,332
Total	1,634	385	201	741	70	3,032
Over time						
Projects	71	266	73	792	50	1,252
Long-term agreements	157	3	5	328		494
Total	229	269	78	1,120	50	1,746
Total	1,863	654	279	1,861	121	4,778

2020

MEUR	Marine Power	Marine Systems	Voyage	Energy	Portfolio Business	Total
At a point in time						
Products	586	139	21	319	27	1,091
Goods and services	309	60	47	88	8	511
Projects	641	347	102	402	56	1,548
Total	1,536	546	169	809	90	3,150
Over time						
Projects	71	259	71	517	91	1,010
Long-term agreements	142	2	7	293		445
Total	213	261	79	811	92	1,455
Total	1,748	808	248	1,620	181	4,604

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	2021	2020
Capital gains	3	11
Government grants	15	17
Sale of scrapped material	2	2
Sale of by-products	4	2
Income related to cancelled orders*	23	2
Insurance indemnities	7	3
Gains on derivatives not included in hedge accounting and ineffective hedging**	11	
Other***	19	24
Total	85	61

* Expenses related to cancelled orders are recognised on respective expense accounts.

** The portion of ineffective hedging is EUR 2 million.

*** Other does not include any significant single items.

Other operating expenses

MEUR	2021	2020
Travel costs	84	75
Rental costs	41	40
Legal and consultancy costs	81	77
Information technology costs	66	59
Other personnel related costs	49	48
Administrative costs	38	39
Losses on derivatives not included in hedge accounting and ineffective hedging*	11	
Other**	97	93
Total	467	431

* The portion of ineffective hedging is EUR 4 million.

** Other does not include any significant single items.

As of 1 January 2021, ineffectiveness arising from hedges included in hedge accounting are recognised in other operating income, other operating expenses or financial income and expenses depending on where the underlying hedged item is recognised in the statement of income. More information on this change in accounting principles is available in 1.5. Changes in accounting principles.

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	2021	2020
Purchases during the financial period	-1,679	-1,475
Change in inventories	-5	-50
External services	-1,030	-1,026
Total	-2,714	-2,551

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 measurement of the share-based long-term incentive schemes is dependent on the terms of the respective scheme. Incentive rights, which are settled with company's shares, are measured at fair value at grant date. Incentive rights, which are settled with cash, are measured at fair value at each reporting date with the change recognised in the statement of income.

Market based vesting conditions, such as share price development, are considered when determining the fair value of the incentive right. Non-market vesting conditions, such as Economic Value Added, or service time required are considered when estimating the number of shares to vest. Estimates of the number of shares to vest are revised at the end of each reporting period and the change is recognised through the statement of income.

Cost of the share-based long-term incentive schemes is recognised as employee benefit expense in the statement of income over the service period required in the scheme. For incentive rights settled with company's shares the expense is recognised against equity, and for incentive rights settled with cash the expense is recognised against liabilities.

When company is obliged to withhold and settle with cash employee's tax obligation associated with the shares vested to tax authority, the portion is accounted in the same manner as the portion, which is settled with 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	2021	2020
Wages and salaries	1,009	984
Pension costs		
Defined benefit plans	9	12
Defined contribution plans	77	64
Other compulsory personnel costs	136	132
Total	1,230	1,192

Management remuneration is specified in Note 7.2. Related party disclosures.

Long-term incentive schemes

Wages and salaries include EUR 8 million (7) in expenses arising from share-based long-term incentive schemes. At the end of 2021, Wärtsilä had three active long-term incentive schemes.

Two of 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 with 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 2019-2021 incentive scheme comprises 3,984,750 rights and the 2020-2022 incentive scheme 7,028,500 rights. For the incentive scheme 2019-2021 the share price basis is 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 6.56 per incentive right in the 2019-2021 scheme, or EUR 4.31 in the 2020-2022 scheme.

The fair value determined at grant date for the incentive right in 2019-2021 scheme is EUR 2.69 and in 2020-2022 scheme EUR 1.34.

Third long-term incentive scheme is for period 2021-2023. It is a performance share plan where the participants are granted company shares if the pre-determined minimum level in company's Economic Value Added is reached and employment requirement for the period is met. Number of shares depends on the level of achievement and is capped to 175% of the target level. There is also a cap set to the pay-out in relation to individuals' base pay at grant date. On target level, the scheme would entitle the participants to a total reward of 3,559,203 shares. In certain countries the equivalent reward would be settled with cash due to local legislation.

The fair value of the share determined at grant date for accounting of 2021-2023 scheme is EUR 8.42.

	2021	2020
Personnel on average	17,461	18,307
Personnel at the end of the financial period	17,305	17,792

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	2021	2020
Income taxes		
for the financial period	-88	-107
for prior financial periods	-9	8
Change in deferred tax		
origination and reversal of temporary differences	-5	40
changes in tax rates	-1	
Total	-103	-58
Reconciliation of effective tax rate:		
Profit before taxes	296	191

Tax calculated at the domestic corporate tax rate 20.0%	-59	-38
Effect of changed tax rates	-1	
Effect of different tax rates in foreign subsidiaries		15
Effect of income not subject to tax and non-deductible expenses	-4	-7
Effect of share of result of associates and joint ventures	1	1
Utilisation of previously unrecognised tax losses carried forward	1	2
Unrecognised taxes on losses carried forward	-18	-25
Other taxes*	-11	-14
Other temporary differences	-1	
Income taxes for prior financial periods	-9	8
Tax charge in the consolidated statement of income	-103	-58
Effective tax rate (%)	34.7	30.3

* 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 weighted average number of shares outstanding during the period.

Equity-settled share-based payments

Wärtsilä has long-term incentive schemes, which can be settled in company shares. These contingently issuable ordinary shares are issuable when certain pre-defined conditions in the incentive programmes are met during a timeframe set in the incentive programmes' conditions. If the settlement would happen at the reporting date, it would result in issuing 1,326,045 shares. These shares are considered as potential ordinary shares causing dilutive effect to the EPS.

MEUR	2021	2020
Profit for the financial period attributable to equity holders of the parent company	194	134
Weighted average number of shares outstanding during the period	590,579,335	591,723,390
Weighted average number of dilutive potential ordinary shares during the period	1,326,045	-
Weighted average number of shares outstanding during the period to be used in the calculation of diluted EPS	591,905,380	-
Earnings per share attributable to equity holders of the parent company:		
Earnings per share (EPS), basic, EUR	0.33	0.23
Earnings per share (EPS), diluted, EUR	0.33	-

Additional information on the number of shares is presented in Note 5.5. Equity.



3. INTANGIBLE AND TANGIBLE ASSETS

Content in this section:

- 3.1. GOODWILL
- 3.2. OTHER INTANGIBLE ASSETS
- 3.3. PROPERTY, PLANT AND EQUIPMENT
- 3.4. LEASES
- 3.5. DEPRECIATION, AMORTISATION AND IMPAIRMENT

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.

Goodwill allocation

Goodwill arising from business acquisitions has been allocated to the operating segments and other business activities, which are also the Group's cash generating units in impairment testing of goodwill. These are Marine Power, Marine Systems, Voyage, Energy, and Portfolio Business.

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.

Goodwill 2021

MEUR	2021
Wärtsilä Group	
Wärtsilä on 1 January	1,325
Changes in exchange rates	49
Reclassification to assets held for sale	-1
Wärtsilä on 31 December	1,374

During 2021, Wärtsilä has classified Delivery Centre Santander as assets held for sale. Delivery Centre Santander belongs to Marine Power.

MEUR	Marine Power	Marine Systems	Voyage	Energy	Portfolio Business	Total
Wärtsilä on 31 December 2021	553	171	101	520	28	1,374

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 five-year cash flow projections from strategic plans. 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 five-year period were calculated using the terminal value method.

For business units under the Portfolio Business, the recoverable amounts were mainly defined based on the discounted cash flow method. For one business unit, which was classified as assets held for sale at the time of the testing, the recoverable amount was defined based on estimations of the selling price on cash-free, debt-free basis.

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, %	2021
Marine Power	1.5
Marine Systems	1.5
Voyage	2.5
Energy	2.0
Portfolio Business	1.0

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, %	2021
Marine Power	8.0
Marine Systems	7.7
Voyage	8.1
Energy	8.3
Portfolio Business	8.4

As a result of the impairment test, no impairment loss for the CGUs was recognised for the financial period ended on 30 September 2021. 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 materially. 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 2021. These assets were classified as assets held for sale already in prior financial year. Part of these write-downs relate 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 17 percentage points
Terminal growth rate	decrease more than 23 percentage points
Profitability	decrease more than 63 percentage
Marine Systems	
Pre-tax discount rate	increase more than 31 percentage points
Terminal growth rate	decrease more than 148 percentage points
Profitability	decrease more than 81 percentage
Voyage	
Pre-tax discount rate	increase more than 7 percentage points
Terminal growth rate	decrease more than 7 percentage points
Profitability	decrease more than 56 percentage
Energy	
Pre-tax discount rate	increase more than 22 percentage points

Terminal growth rate	decrease more than 37 percentage points
Profitability	decrease more than 71 percentage
Portfolio Business	
Pre-tax discount rate	increase more than 1.4 percentage points
Terminal growth rate	decrease more than 1.2 percentage points
Profitability	decrease more than 14.3 percentage

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 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.

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.

2021

MEUR	Develop- ment expenses	Construc- tion in progress and advances paid	Other intangible assets	Total
Cost on 1 January 2021	182	123	829	1,134
Changes in exchange rates		1	16	17
Additions	2	53	6	61
Decreases and other changes	1		-12	-12
Reclassifications	25	-28	3	
Cost on 31 December 2021	211	148	841	1,200
Accumulated amortisation and impairment on 1 January 2021	-115	-1	-628	-743
Changes in exchange rates			-13	-13
Accumulated amortisation on decreases and other changes	-1		11	10
Amortisation during the financial period	-13		-39	-53

Accumulated amortisation and impairment on 31 December 2021	-128	-1	-670	-799
Carrying amount on 31 December 2021	83	147	171	401

Development costs for internally generated assets capitalised during the financial period amounted to EUR 51 million (52). The carrying amount was EUR 223 million (179).

Purchase price allocation amortisation amounted to EUR 31 million (33) and the related carrying amount was EUR 141 million (171).

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
Impairment	-12		-43	-54
Accumulated amortisation and impairment on 31 December 2020	-1	-1	-2	-4
Accumulated amortisation and impairment on 31 December 2020	-115	-1	-628	-743
Carrying amount on 31 December 2020	68	122	201	391

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.

2021

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Total
Cost on 1 January 2021	25	270	782	32	26	1,135
Changes in exchange rates		4	9			14
Additions		2	19	57	3	82
Decreases	-1	-6	-23		-1	-31
Reclassifications		1	9	-12		-2
Cost on 31 December 2021	24	270	796	77	29	1,197
Accumulated depreciation and impairment on 1 January 2021	-1	-176	-654		-22	-853
Changes in exchange rates		-2	-7			-9
Accumulated depreciation on decreases and disposals		6	23			29
Depreciation during the financial period		-11	-37		-2	-50
Impairments						-1
Reclassifications		-1				
Accumulated depreciation and impairment on 31 December 2021	-1	-184	-675		-24	-884
Carrying amount on 31 December 2021	23	86	121	77	5	312

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

3.4. LEASES

Accounting principles

The Group's capitalised lease agreements consist mainly of land, buildings used as office premises, factories, workshops, 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 together with 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 is required to consider the duration of the lease term if there is an option for extension, early termination or purchase, as well as determine the lease term for agreements with indefinite lease term. When evaluating the probability of the option being exercised and, therefore, the duration of the lease term, management considers all known facts and circumstances, for example, businesses' short- and long-term strategies that create a financial incentive to exercise, or not to exercise the option.

MEUR	2021	2020
Land and buildings, right-of-use assets		
Carrying amount on 1 January	151	174
Changes in exchange rates	3	-6
Acquisitions and disposals	-1	-2
Additions	75	29
Depreciation and impairment	-41	-40
Decreases and reclassifications	-6	-6
Carrying amount on 31 December	181	151
Machinery and equipment, right-of-use assets		
Carrying amount on 1 January	11	11
Additions	7	8
Depreciation and impairment	-6	-7
Decreases and reclassifications		-1
Carrying amount on 31 December	11	11
Lease liabilities		
Carrying amount on 1 January	166	188
Changes in exchange rates	3	-6
Acquisitions and disposals		-1
Additions	82	37
Payments	-47	-45

Other adjustments	-8	-7
Carrying amount on 31 December	197	166
Total lease liabilities		
Non-current	157	124
Current	39	42

MEUR	2021	2020
Amounts recognised in statement of income		
Depreciation and impairment of right-of-use assets	-47	-47
Interest expenses	-4	-4
Expense - short-term leases	-28	-27
Expense - leases of low-value assets	-5	-4
Expense - variable lease payments	-5	-4

The residual value guarantees related to the Smart Technology Hub in Vaasa that are not considered in capitalised lease payments are disclosed in Note 7.1. Collateral, contingent liabilities, and other commitments.

3.5. DEPRECIATION, AMORTISATION AND IMPAIRMENT

MEUR	2021	2020
Development expenses	13	12
Purchase price allocation amortisation	31	33
Other intangible assets	8	9
Buildings and structures	11	12
Land and buildings, right-of-use assets	41	40
Machinery and equipment	37	38
Machinery and equipment, right-of-use assets	6	7
Other tangible assets	2	1
Impairment	12	21
Total	162	174



4. WORKING CAPITAL AND OTHER BALANCE SHEET ITEMS

Content in this section:

- 4.1. INVENTORIES
- 4.2. TRADE RECEIVABLES AND CONTRACT ASSETS AND LIABILITIES
- 4.3. OTHER RECEIVABLES
- 4.4. TRADE PAYABLES AND OTHER LIABILITIES
- 4.5. PROVISIONS
- 4.6. DEFERRED TAXES
- 4.7. PENSION OBLIGATIONS

4.1. INVENTORIES

Accounting principles

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale.

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. Inventories are presented net of provision for obsolete inventories.

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. A systematic and continuous evaluation of inventory ageing, turn-over, and composition compared to anticipated future use, is the basis for the estimates.

MEUR	2021	2020
Materials and consumables	453	453
Work in progress	626	632
Finished products	49	45
Advances paid	58	62
Total	1,185	1,192

In 2021, EUR 13 million (24) 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 4 million (23).

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. In addition, assessing whether 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	2021	2020
Trade receivables	896	953
Contract assets	684	389
Contract liabilities		
Advances received	498	452
Deferred income	770	524
Trade receivables and contract assets		
Non-current	26	30
Current	1,554	1,311
Contract liabilities		
Non-current	37	51

Current	1,231	926
Revenue recognised in the financial period that was included in the contract liability on 1 January	926	880
Unsatisfied performance obligations, all revenue types	7,599	6,748
of which remaining performance obligations from projects and contracts under execution	4,763	3,898

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 increase in contract assets as well as in deferred income arises from usual business-related project variations mainly in Energy business.

Ageing of trade receivables

MEUR	Trade receivables	2021 of which impaired	Trade receivables	2020 of which impaired
Not past due	692	3	657	1
Past due 1–30 days	93		112	
Past due 31–180 days	89	1	123	2
Past due 181–360 days	16		29	3
Past due 1 year	85	75	93	56
Total	975	79	1,014	61

In 2021, the result impact of write-offs was EUR -6 million (-5).

Impairment

MEUR	2021	2020
Impairment on 1 January	61	61
Money received	-13	-27
Impairment during the period	38	34
Write-off during the period	-6	-5
Impairment on 31 December	79	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	2021	2020
Derivatives	17	37
Interest and other financial items	5	4
Insurance receivables	3	3
Rental accruals	2	2
Prepaid expenses	3	6
Other accruals	34	34
Loan receivables	2	2
Defined benefit plans	6	1
VAT receivables	134	124
Other*	57	56
Total	263	269
Non-current	17	11
Current	246	258

* Other receivables includes payroll related tax receivables of EUR 7 million (7) in Brazil, which are not likely to be utilised within a year.

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	2021	2020
Trade payables*	714	411
Accrued expenses	313	315
Personnel costs	179	154
Derivatives	23	27
Interest and other financial items	5	4
Other accruals	34	43
VAT liabilities	54	40

Other	68	81
Total	1,390	1,076
Non-current	1	1
Current	1,390	1,075

* EUR 299 million (86) of the trade payables were eligible for Supply Chain Finance programmes provided by banks to Wärtsilä's suppliers.

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.

2021

MEUR	Litigation	Warranties	Onerous contracts	Restructuring	Other provisions	Total
Provisions on 1 January 2021	10	174	80	9	50	324
Changes in exchange rates		3	2		1	6
Additions	6	43	76	9	41	176
Used provisions	-6	-58	-85	-10	-11	-169
Released provisions	-1		-9	-1	-11	-22
Provisions on 31 December 2021	10	162	65	7	70	314
Non-current						73
Current						241

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.

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

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 2021

MEUR	1 January 2021	Recognised in the consolidated statement of income	Other comprehensive income	Translation differences	Acquisitions and disposals	31 December 2021
Deferred tax assets						
Tax loss carry-forwards	58	-19				39
Pension obligations	25	-2	-2		-1	20
Provisions	36			1		37
Elimination of intragroup margin in inventories	7					7
Fair value reserve	6		-2	1		5
Other temporary differences	63	4		1	-10	58
Reclassification to assets held for sale	-12				12	
Total	183	-17	-4	3		167
Deferred tax liabilities						
Intangible assets and property, plant and equipment	50	-7		1	-1	43
Fair value reserve	2		-2			
Other temporary differences	36	-5		1	-10	22
Reclassification to assets held for sale	-12				12	
Total	76	-12	-2	2		65

Net deferred tax assets/liabilities	107	-5	-2	1	101
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On 31 December 2021, the Group had temporary differences on which no deferred tax assets were booked, totalling EUR 79 million (68), 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 9 million (19) 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 2020

MEUR	1 January 2020	Recognised in the consolidated statement of income	Other comprehensive income	Translation differences	Acquisitions	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

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	2021	2020
Net defined benefit assets on 31 December	6	
Net defined benefit liabilities on 31 December	126	139
Liability for other long-term employee benefits on 31 December	19	16

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 34% 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	2021	2020
Present value of unfunded defined benefit obligations	102	111
Present value of funded defined benefit obligations	181	180
Fair value of plan assets	-164	-151
Net liability in the statement of financial position	120	139

%	Present value of defined benefit obligations	Fair value of plan assets
Switzerland	34	56
Germany	18	
Other Europe	37	33
Asia	11	12
Total	100	100

MEUR	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
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

Balance on 1 January 2021	290	-151	139
Changes in exchange rates	7	-7	
Acquisitions and disposals	-2		-1
Recognised in the statement of income:			
Current service cost	8		8
Interest cost (+) / interest income (-)	3	-2	1
Remeasurements recognised in other comprehensive income:			
Return on plan assets, excluding interest income		-5	-5
Experience adjustments	1		1
Changes in demographic assumptions	-3		-3
Changes in financial assumptions	-4		-4
Contribution paid by the plan members	1	-1	
Contribution paid by the employer		-7	-7
Benefits paid	-19	9	-10
Balance on 31 December 2021	282	164	120

Plan assets invested in:

%	2021	2020
Shares and other equity instruments	18	18
Bonds and other debt instruments	40	39
Property	18	17
Other assets	23	26

The main actuarial assumptions at the end of the financial period are (expressed as weighted averages):

%	2021	2020
Discount rate	1.27	1.00
Future salary growth	2.22	2.01
Future pension growth	1.10	1.00

On 31 December 2021, the weighted average duration of the defined benefit obligation was 10 years (8). The Group expects to contribute EUR 6 million (3) 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:

	2021	2020
Plan participants retiring at the end of the financial period:		
Male	17.4	17.3
Female	19.7	19.8
Plan participants retiring 20 years after the end of the financial period:		
Male	17.1	17.0
Female	19.1	19.1

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the end of the financial period. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety.

Sensitivity analysis

	Change in assumption	Effect to defined benefit obligation, MEUR	
		2021	2020
Discount rate	increase 1%	-37	-37
Discount rate	decrease 1%	45	48
Future salary growth	increase 1%	9	8
Future salary growth	decrease 1%	-7	-7
Future pension growth	increase 1%	28	29
Future pension growth	decrease 1%	-16	-15



5. CAPITAL STRUCTURE AND FINANCIAL ITEMS

Content in this section:

- 5.1. FINANCIAL INCOME AND EXPENSES
- 5.2. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY
- 5.3. CASH AND CASH EQUIVALENTS
- 5.4. NET DEBT RECONCILIATION
- 5.5. EQUITY
- 5.6. MATURITY ANALYSIS OF FINANCIAL LIABILITIES
- 5.7. DERIVATIVE FINANCIAL INSTRUMENTS
- 5.8. FINANCIAL RISKS

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	2021	2020
Interest income on loans and receivables	4	3
Interest income on financial assets at fair value through the statement of income	8	12
Interest income on investments at amortised cost	1	1
Changes in fair values of financial assets/liabilities at fair value through the statement of income	1	
Other financial income	1	
Total financial income	15	16

Interest expenses on financial liabilities recognised at amortised cost	-11	-9
Interest expenses on lease liabilities recognised at amortised cost	-4	-4
Interest expenses on financial liabilities at fair value through the statement of income	-10	-21
Net interest from defined benefit plans	-1	-2
Changes in fair values of financial assets/liabilities at fair value through the statement of income	5	
Exchange rate differences*	-4	-16
Fee expenses	-2	-2
Other financial expenses	-5	-4
Total financial expenses	-33	-59
Total	-18	-43

* In 2020, the result from the ineffective portion of cash flow hedges related to cancelled projects, EUR -1 million, and in 2021, exchange rate differences from unhedged internal loans, EUR -3 million (-10) 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.

2021

MEUR	Measured at amortised cost	At fair value through the statement of income	At fair value through other comprehensive income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets					
Interest-bearing investments		5		5	5
Trade receivables	26			26	26
Derivatives		1		1	1
Other investments		18		18	18
Other receivables	2			2	2
Current financial assets					
Trade receivables	869			869	869
Trade receivables for sale		1		1	1
Derivatives		6	10	16	16
Other financial receivables	5			5	5
Cash and cash equivalents	723	241		964	964
Carrying amount by measurement category	1,625	272	10	1,906	1,906
Non-current financial liabilities					
Interest-bearing debt	851			851	855
Derivatives		7	2	9	9
Current financial liabilities					
Interest-bearing debt	121			121	121
Trade payables	714			714	714
Derivatives		3	11	14	14
Other financial liabilities	5			5	5
Carrying amount by measurement category	1,692	10	13	1,714	1,718

2020

MEUR	Measured at amortised cost	At fair value through the statement of income	At fair value through other comprehensive income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets					
Interest-bearing investments		1		1	1
Trade receivables	30			30	30
Derivatives		1		1	1
Other investments		19		19	19
Other receivables	2			2	2
Current financial assets					
Trade receivables	920			920	920
Trade receivables for sale		2		2	2
Derivatives		15	22	37	37
Other financial receivables	4			4	4
Cash and cash equivalents	652*	265		919	919
Carrying amount by measurement category	1,608	302	22	1,934	1,934
Non-current financial liabilities					
Interest-bearing debt	1,129			1,129	1,139
Derivatives		19	6	25	25
Current financial liabilities					
Interest-bearing debt	198			198	198
Trade payables	411			411	411
Derivatives		1	2	3	3
Other financial liabilities	4			4	4
Carrying amount by measurement category	1,743	20	8	1,770	1,780

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

Fair value hierarchy

Accounting principles

Wärtsilä uses the following categorisation for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: The quoted prices for the financial instruments are directly and regularly available on active publicly traded markets or other publicly available sources.

Level 2: The prices for the financial instruments are determined by using a valuation method for which the input data is directly or indirectly available on a publicly traded markets or other publicly available sources.

Level 3: The financial instruments are categorised into level 3 fair value if the prices for the inputs of the valuation method are not publicly available, and when the financial instruments are measured using an independent valuation method.

Specific valuation techniques used to value financial instruments include:

- the fair value of forward foreign exchange contracts is determined by using forward rates at the closing date
- the fair value of interest rate swaps is calculated as being the present value of the estimated future cash flows based on observable yield curves
- the use of quoted market prices or dealer quotes for similar instruments

MEUR	2021		2020	
	Level 2	Level 3	Level 2	Level 3
Financial assets				
Other investments		18		19
Interest-bearing investments, non-current	5		1	
Other receivables, non-current	2		2	
Derivatives	17		37	
Financial liabilities				
Interest-bearing debt, non-current*	855		1,139	
Derivatives	23		27	

* 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	2021	2020
Carrying amount on 1 January	19	18
Acquired shares	1	1
Impairment	-2	
Carrying amount on 31 December	18	19

In 2021, the cost for other unlisted shares (level 3) was EUR 18 million (19), and the market value of them was EUR 18 million (19).

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	2021	2020
Cash and bank balances*	708	628
Cash equivalents	256	290
Total	964	919

* EUR 178 million (175) 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 2020, the Group also had cash and cash equivalents of EUR 14 million related to assets held for sale.

5.4. NET DEBT RECONCILIATION

Net interest-bearing debt

MEUR	2021	2020
Lease liabilities, non-current	157	124
Other interest-bearing debt, non-current	694	1,005
Lease liabilities, current	39	42
Other interest-bearing debt, current	82	156
Total interest-bearing liabilities	973	1,327
Interest-bearing receivables	-5	-1
Cash and cash equivalents	-964	-919
Cash and cash equivalents pertaining to assets held for sale		-14
Total interest-bearing assets	-969	-933
Total net interest-bearing debt	4	394

Net debt reconciliation

2021

MEUR	Carrying amount on 1 January 2021	Cash flows	Changes in exchange rates	Other non-cash movements	Acquisitions and disposals	Carrying amount on 31 December 2021
Lease liabilities	166	-51	3	78		197
Other interest-bearing debt, non-current	1,005	-303	-8			694
Other interest-bearing debt, current	156	-72	-2			82
Interest-bearing receivables	-1	-1	-3			-5
Cash and cash equivalents*	-932	-30	-10		7	-964
Net debt	394	-457	-19	78	7	4

* Includes cash and cash equivalents pertaining to assets held for sale.

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
Lease liabilities	188	-49	-6	34	-1	166
Other interest-bearing debt, non-current	851	155				1,005
Other interest-bearing debt, current	58	121	-14		-8	156
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.

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

The Board of Directors of Wärtsilä Corporation decided to use the authorisation given by the Annual General Meeting repurchase the Company's own shares. The repurchases started on 27 April 2021 and ended on 5 May 2021. Following the repurchases, the Company holds a total of 1,700,000 shares. The repurchased shares are to be used for pay-outs under the share-based incentive programmes of Wärtsilä Corporation.

MEUR	Share capital	Share premium	Total
1 January 2020	336	61	397
31 December 2020	336	61	397
31 December 2021	336	61	397

Number of shares and votes	
Number of shares outstanding on 31 December 2020	591,723,390
Repurchase of own shares on 27 April 2021	-250,000
Repurchase of own shares on 28 April 2021	-290,000

Repurchase of own shares on 29 April 2021	-400,000
Repurchase of own shares on 30 April 2021	-160,000
Repurchase of own shares on 3 May 2021	-200,000
Repurchase of own shares on 4 May 2021	-250,000
Repurchase of own shares on 5 May 2021	-150,000
Number of shares outstanding on 31 December 2021	590,023,390
Weighted average number of shares outstanding during the period	590,579,335

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 2021, EUR -12 million (-4) of fair value adjustments related to cash flow hedges was recognised in equity. EUR 4 million (6) of the fair value adjustments was transferred from equity to the statement of income as net sales or operating expenses during 2021.

MEUR	Cash flow hedges
Fair value reserve on 1 January 2020	-16
Taxes related to fair value adjustments	5
Fair value reserve on 1 January 2020	-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
Transferred to the statement of income, net of taxes	2
Fair value adjustments	-12
Taxes related to fair value adjustments	1
Fair value reserve on 31 December 2021	-18

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 0.24 per share be paid for the financial period 2021, the total dividend payable being EUR 142 million. The remaining part of the retained profits will be carried further in the unrestricted equity. For the profit for the financial period 2020, a dividend of EUR 0.20 per share was distributed, totalling EUR 118 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

2021

MEUR	Current		Non-current		Total
	< 1 year	1–3 years	3–5 years	> 5 years	
Loans from other financial institutions*	82	287	302	104	776
Lease liabilities	43	61	40	71	216
Trade payables	714				714
Derivatives**	14	7		2	23
Other liabilities	5				5
Total	858	356	342	178	1,733
* Estimated interest expenses, total	5	7	3	1	16
Estimated contractual cash flows	863	363	345	178	1,749

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

** 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 2021.

Fair values of financial liabilities as well as information on measurement categories of financial liabilities are presented 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

		2021		2020
	Net against fixed sales and purchase contracts	Against net loans	Net against fixed sales and purchase contracts	Against net loans
MEUR				
Currency forwards				
USD	837	56	292	287
NOK	397	1	396	1
GBP	81	32		
CHF	58	53	22	61
CNY	10	11	15	12
AUD	48	31		47

MXN	36	1	46	5
SGD	20	17		11
SEK	34	1	25	1
CAD	32	9	20	11
Other currencies*	89		120	1
Total net amount of currency derivatives	1,642	214	936	437

* 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 2,402 million (1,861) currency forwards. A 5% change in the exchange rates would cause from these currency forwards an approximately EUR 152 million (45) 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	2021 Equity impact	Gross amount	Net amount	2020 Equity impact
Both legs of currency forwards under hedge accounting*						
EUR	1,834	1,130	56	1,424	123	6
USD	1,405	1,005	50	1,077	295	15
NOK	931	384	19	803	248	12
GBP	133	131	7	79	57	3
MXN	102	38	2	128	46	2
CNY	48	47	2	50	40	2
JPY	23	23	1	26	2	
CHF	59	53	3	18	8	
Other currencies	268	234	12	116	81	4
Total (single leg)	2,402	1,523	152	1,861	900	45

* Intragroup transactions, on which the actual hedge accounting bookings are based.

MEUR	2021	2020
External currency forwards under hedge accounting by year		
2021	-	1,010
2022	1,417	-
Hedged highly probable forecasted cash flows by year		
2021	-	1,341
2022	1,925	233
2023	226	50
2024	56	45
2025	44	192*
2026–	151	

* Includes 2025 and later for comparison period.

Derivatives

MEUR	2021	of which closed	2020	of which closed
Nominal values of derivative financial instruments (level 2)				
Interest rate swaps	408		450	
Cross currency swaps	153		237	
Currency forwards, included in hedge accounting	1,417	676	1,010	558
Currency forwards, no hedge accounting	660	179	650	245
Total	2,639	855	2,347	803
Fair values of derivative financial instruments (level 2)				
Interest rate swaps	-4		-12	
Cross currency swaps	-5		-12	
Currency forwards, included in hedge accounting	-1		21	
Currency forwards, no hedge accounting	3		14	
Total	-6		10	

In addition, the Group had copper futures and swaps amounting to 933 tons (113) valued at EUR 8 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 52 months (59). The average maturity for cross currency swaps is 31 months (30).

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 128 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 2021, a EUR -2 million (-6) fair value adjustment related to cash flow hedge was recognised in equity, and no amounts have been reclassified to profit and loss.

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	2021	2020
Gross fair values of derivative financial instruments subject to ISDAs		
Assets		
Cross currency swaps		1
Currency forwards	16	37
Total	17	37
Liabilities		
Interest rate swaps	-4	-12
Cross currency swaps	-5	-13
Currency forwards	-14	-3
Total	-23	-27
Net fair values of derivative financial instruments subject to ISDAs		
Assets	4	25
Liabilities	-10	-16
Total	-6	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 2022 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 2021, the net assets of

Wärtsilä's foreign subsidiaries and joint ventures outside the euro zone totalled EUR 963 million (956). In addition, goodwill and purchase price allocations from acquisitions nominated in foreign currencies amounted to EUR 900 million (865). In 2021, the translation differences recognised in other comprehensive income mainly come from changes in the GBP exchange rate.

Approximately 60% (65) of sales and 54% (61) of operating costs were denominated in euros, and approximately 25% (20) of sales and 18% (11) 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 2021 by currency pair are listed below.

2021

MEUR	Statement of financial position		Estimated cash flows		Net
	Base currency received	Base currency paid	Base currency received	Base currency paid	
EUR/USD	71	196	154	934	905
USD/NOK	36	8	400		429
EUR/NOK	94	48	156	4	198
EUR/CNY	25	22	107	3	106
EUR/GBP	28	21	88	6	89
EUR/AUD	5	5	18	77	59
EUR/SGD	17	11	26		32

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

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 2021.

MEUR	2021			2020		
	Loans	Deposits	Net	Loans	Deposits	Net
Intragroup loans/deposits						
USD	160	216	56	15	282	266
GBP	76	43	32	68	60	9
CHF	53		53	61		61
AUD		31	31		49	49
NOK					1	1
SGD		17	17		19	19
CNY		11	11		12	12
CAD		9	9		11	11
Other currencies*		2	2	6	1	7
External loans/deposits						
JPY	153**		153	237**		237
USD					20	20
Total	443	330	366	388	455	692

* 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 41 million (66).

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 2021 totalled EUR 776 million (1,161). The average interest rate was 0.6% (0.8) and the average re-fixing time 14 months (13).

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	2021	2020
Fixed rate loans	250	366
Floating rate loans	526	796
Derivatives	404	424
Share of fixed rate loans of total loans (including derivatives), %	84	68

At the end of 2021, a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 17 million (26) 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 1 million (4) change in the following year's interest expenses from the debt portfolio, including derivatives.

As the main funding currency of the Group is Euro, the IBOR reform does not have a significant impact on the Group's financial arrangements. Due to the reform, the reference interest rate of long-term JPY loans has been amended, and the reference rates for the Group's cash pool bank accounts have been changed in cases where a rate would have been discontinued.

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.

The existing loan facilities include:

- Committed Revolving Credit Facilities totalling EUR 650 million (660).
- Finnish Commercial Paper programmes totalling EUR 850 million (850).

The average maturity of the non-current debt is 36 months (36) and the average maturity of the confirmed credit lines is 23 months (21). Additional information in Note 5.6. Maturity analysis of financial liabilities.

At year-end, the Group had cash and cash equivalents totalling EUR 964 million (932), of which, in 2020, EUR 14 million was related to assets held for sale, as well as EUR 650 million (660) of non-utilised committed credit facilities. Commercial Paper Programmes were not utilised on 31 December 2021 nor on 31 December 2020.

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	2021 Available (end of period)	Maturing	2020 Available (end of period)
2020	-	-		660
2021		650	280	380
2022	140	510	90	290
2023	230	280	160	130
2024	130	150	130	
2025	100	50		
2026	50			

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 2021, 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 (12) 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	2021	2020
Lease liabilities, non-current	157	124
Other interest-bearing debt, non-current	694	1,005
Lease liabilities, current	39	42
Other interest-bearing debt, current	82	156
Total interest-bearing liabilities	973	1,327
Interest-bearing receivables	-5	-1
Cash and cash equivalents	-964	-919
Cash and cash equivalents pertaining to assets held for sale		-14
Total interest-bearing assets	-969	-933
Total net interest-bearing debt	4	394
Total equity	2,323	2,188
Gearing	0.00	0.18

In the capital management Wärtsilä also follows the gearing development:		
Equity and liabilities	6,523	6,232
Advances received	-498	-452
	6,025	5,780
Solvency ratio, %	38.6	38.1



6. GROUP STRUCTURE

Content in this section:

- 6.1. ACQUISITIONS
- 6.2. DISPOSALS
- 6.3. ASSETS HELD FOR SALE
- 6.4. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES
- 6.5. SUBSIDIARIES
- 6.6. EXCHANGE RATES

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.

2021

In 2021, there were no acquisitions.

2020

In 2020, there were no acquisitions.

6.2. DISPOSALS

Accounting principles

The disposed subsidiaries are included in the consolidated financial statements until the control ends.

2021

In April 2021, Wärtsilä divested 100% of the shares in its Entertainment Systems business unit, Wärtsilä Funa GmbH, to Videlio SA, a French public limited company. The divestment was announced in January 2021.

Entertainment Systems 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 impact of the divestment on the profit for the financial period is not significant.

In July 2021, Wärtsilä divested 100% of the shares in Wärtsilä EUROATLAS GmbH to Mimir, a global investment firm based in Sweden. Wärtsilä EUROATLAS belonged to Special Products business unit, and the divestment was announced in March 2021.

Wärtsilä EUROATLAS is providing its global customer base tailor-made solutions for high performance power conversion in naval, aviation and mobile land-based applications requiring highest reliability and power density and leading-edge energy efficiency under harsh environmental conditions. Products and services include original design, retrofits, upgrades, maintenance, spare parts, and education. The annual revenues were approximately EUR 10 million in 2020. The impact of the classification as assets held for sale on the profit for

the financial period 2020 was approximately EUR -6 million. The impact of the divestment on the profit for the financial period 2021 is EUR -2 million.

All disposed business units belonged to Portfolio Business.

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.

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 asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

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.

2021

Wärtsilä has classified Tank Control Systems business unit and Delivery Centre Santander as assets held for sale. Tank Control Systems has been classified as assets held for sale since the second quarter of 2020 and Delivery Centre Santander since the second quarter of 2021.

In September 2021, Wärtsilä announced the divestment of Tank Control Systems business unit to Svanehøj, a Danish gas pump specialist. Tank Control Systems designs, manufactures, sells and services high-end measurement systems for gas tanks on LNG ships, offshore storage, and land-based LNG terminals. Tank Control Systems is also a leading supplier of safety products and associated systems and solutions for LPG land-based storage and underground cavern storage. Classifying Tank Control Systems business unit as assets held for sale has an impact of EUR -7 million on the profit for the financial period 2021. Completion of the transaction is expected in the first quarter of 2022. Tank Control Systems business unit belongs to Portfolio Business.

The divestment of Delivery Centre Santander to Javier Cavada Corporación Cantabria was announced in May 2021. Completion of the transaction is expected in the first quarter of 2022. Delivery Centre Santander belongs to Marine Power.

All assets held for sale are valued at the lower of book value or fair value.

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.

Items on statement of financial position

MEUR	31.12.2021	31.12.2020
Goodwill	2	7
Other intangible assets		1
Property, plant and equipment	2	4
Right-of-use assets		2
Deferred tax assets		12
Inventories	4	23
Other receivables, current		42
Cash and cash equivalents		14
Assets held for sale	8	105
Write-down of assets	-6	-6
Net for assets held for sale	2	99
Deferred tax liabilities		12
Other liabilities, non-current		3
Other liabilities, current		52
Liabilities directly attributable to assets held for sale		68
Net assets	2	31

In 2021, the write-down of assets of EUR -6 million relates to Tank Control Systems business unit, which has been classified as assets held for sale. The expense is recognised as depreciation, amortisation and impairment in the statement of income.

In 2020, the write-down of assets of EUR -6 million related to the classification of Wärtsilä EUROATLAS GmbH as assets held for sale. The expense was recognised as 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	2021	2020
Carrying amount on 1 January	23	42
Share of result	3	3
Dividends	-2	-1
Translation differences	3	-2
Reduction of share capital in associates and joint ventures		-28
Impairment		9
Carrying amount on 31 December	27	23

Summary of financial information (100%):

2021

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	37	24	20	54	5
CSSC Wärtsilä Electrical & Automation Co., Ltd.	China	49.0		6	3	4	9	
CSSC Wärtsilä Engine (Shanghai) Co., Ltd.	China	49.0	56	117	24	34	115	2
Repropel Sociedad de reparacao de helices	Portugal	50.0		2	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 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.

2020

MEUR		Holding %	Non-current assets	Current assets	Equity	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	

Wärtsilä Hyundai Engine Co Ltd. was disposed on 31 December 2020. During 2020, Wärtsilä Land & Sea Academy, Inc. was liquidated, and the shares of Neptun Maritime AS were sold.

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 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 BLRT Estonia Oü	Estonia	Sales and services	51.7
	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 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
	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 B.V.	The Netherlands	Sales and services	100.0
The Americas	Wärtsilä Argentina S.A.	Argentina	Sales and services	100.0

	Wärtsilä Brasil Ltda.	Brazil	Production, sales and services	100.0
	Wärtsilä Canada Inc.	Canada	Sales and services	100.0
	Wärtsilä Chile Ltda.	Chile	Sales and services	100.0
	Wärtsilä Colombia S.A.	Colombia	Sales and services	100.0
	Wärtsilä Dominicana Inc.	Dominican Republic	Sales and services	100.0
	Wärtsilä Ecuador S.A.	Ecuador	Sales and services	100.0
	Wärtsilä Guatemala S.A.	Guatemala	Sales and services	100.0
	Wärtsilä Operations Guyana Inc.	Guyana	Sales and services	100.0
	Wärtsilä de Mexico S.A. de C.V.	Mexico	Sales and services	100.0
	Wärtsilä Panama Services S.A.	Panama	Sales and services	100.0
	Wärtsilä Peru S.A.C.	Peru	Sales and services	100.0
	Wärtsilä Caribbean, Inc.	Puerto Rico	Sales and services	100.0
	Wärtsilä Uruguay S.A.	Uruguay	Sales and services	100.0
	American Hydro Corporation	USA	Sales and services	100.0
	Guidance Marine LLC	USA	Sales and services	100.0
	Wärtsilä Defence Inc.	USA	Sales and services	100.0
	Wärtsilä 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 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
	Wartsila Samarkand Energy LLC	Uzbekistan	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 South 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 2021	Closing rates 31 December 2020	Average rates 2021	2020
AED	UAE Dirham	4.15959	4.50689	4.34679	4.19169
AUD	Australian Dollar	1.56150	1.58960	1.57473	1.65540
BRL	Brazilian Real	6.31010	6.37350	6.38134	5.89001
CHF	Swiss Franc	1.03310	1.08020	1.08142	1.07031
CNY	Yuan Renminbi	7.19470	8.02250	7.63402	7.87084
DKK	Danish Krone	7.43640	7.44090	7.43705	7.45440
GBP	Pound Sterling	0.84028	0.89903	0.86000	0.88921
IDR	Indonesian Rupiah	16,100.42000	17,240.76000	16,928.51000	16,619.78000
INR	Indian Rupee	84.22920	89.66050	87.48609	84.57954
JPY	Yen	130.38000	126.49000	129.85747	121.77545
NOK	Norwegian Krone	9.98880	10.47030	10.16339	10.72476
RUB	Russian Ruble	85.30040	91.46710	87.23206	82.64545
SAR	Saudi Riyal	4.25155	4.60347	4.43897	4.28208
SEK	Swedish Krona	10.25030	10.03430	10.14485	10.48813
SGD	Singapore Dollar	1.52790	1.62180	1.58965	1.57357
USD	US Dollar	1.13260	1.22710	1.18353	1.14128



7. OTHER NOTES

Content in this section:

- 7.1. COLLATERAL, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS
- 7.2. RELATED PARTY DISCLOSURES
- 7.3. AUDITORS' FEES AND SERVICES
- 7.4. EVENTS AFTER THE BALANCE SHEET DATE

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.

		2021		2020
MEUR	Debt in the statement of financial position	Collateral	Debt in the statement of financial position	Collateral
Mortgages given as collateral for liabilities and commitments				
Other commitments	9	10	13	10
Total	9	10	13	10
Chattel mortgages and other pledges and securities given as collateral for liabilities and commitments				
Loans from credit institutions	1		3	
Other commitments		7		17
Total	1	7	3	17
MEUR		2021		2020
Guarantees and contingent liabilities				
on behalf of Group companies		1,065		887
Total		1,065		887

Nominal amounts of lease liabilities		
Low-value lease liabilities	11	7
Short-term lease liabilities	4	3
Leases not yet commenced, but to which Wärtsilä is committed	120	191
Residual value guarantee	30	
Total	166	201

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	2021	2020
President and CEO		
Salaries and other short-term benefits	1,215	843
Short-term incentive schemes	379	335
Statutory pension costs	249	184
Voluntary pension costs	262	179
Other members of the Board of Management		
Salaries and other short-term benefits	2,623	2,642
Short-term incentive schemes	790	583
Statutory pension costs	346	267
Voluntary pension costs	401	247
Total	6,266	5,279
Board of Directors on 31 December 2021		
Tom Johnstone, Chairman	160	163
Risto Murto, Deputy Chairman	123	90
Maarit Aarni-Sirviö, member	98	100
Karen Bomba, member	78	79
Karin Falk, member	78	80

Johan Forssell, member	83	85
Mats Rahmström, member	76	79
Tiina Tuomela, member	96	
Board of Directors, until 4 March 2021		
Markus Rauramo, Deputy Chairman	2	135
Board of Directors, until 5 March 2020		
Kaj-Gustaf Bergh, member		2
Mikael Lilius, member		3
Total	791	814
Management remuneration, total	7,057	6,093

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 252,627 shares (238,875).

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	2021	2020
Sales to the associates and joint ventures	31	23
Purchases from the associates and joint ventures	69	67
Receivables from the associates and joint ventures	7	6
Advances paid to the associates and joint ventures	4	4
Payables to the associates and joint ventures	4	3

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 2021, the AGM appointed the audit firm PricewaterhouseCoopers Oy as Wärtsilä Corporation's auditor. PricewaterhouseCoopers Oy has provided non-audit services totalling EUR 0.3 million to entities of Wärtsilä Group. These services included tax services (EUR 0.2 million) and minor amount related to other services.

MEUR	2021		2020	
	PwC	Others	PwC	Others
Audit	3.6	0.8	4.2	0.4
Tax advisory	0.2	0.1	0.3	0.2
Other services			0.1	0.1
Total	3.9	1.0	4.6	0.7

7.4. EVENTS AFTER THE BALANCE SHEET DATE

On 14 January 2022, Wärtsilä has divested Tank Control Systems business unit to Svanehøj, a Danish gas pump specialist.

The event is not expected to have a significant impact on the profit for the financial period 2022.

PARENT COMPANY FINANCIAL STATEMENTS (FAS)

PARENT COMPANY INCOME STATEMENT

MEUR	2021	2020	Note
Other operating income	109	93	1
Personnel expenses	-45	-38	2
Depreciation, amortisation and impairments	-4	-5	3
Other operating expenses	-92	-89	
Operating result	-33	-39	
Financial income and expenses	226	305	4
Result before appropriations and taxes	194	266	
Appropriations	1	2	
Result before taxes	194	268	
Income taxes	-6	-3	5
Result for the financial period	188	265	

PARENT COMPANY BALANCE SHEET

MEUR	2021	2020	Note
ASSETS			
Fixed assets			6
Intangible assets			
Other long-term expenditure	6	8	
Intangible assets and construction in progress	3	1	
	9	9	
Tangible assets			
Land and water	2	2	
Machinery, equipment and other tangible assets	5	6	
	7	9	
Financial assets			
Shares in Group companies	950	950	
Other shares and securities	2	2	
	952	951	
Total fixed assets	968	969	
Non-current receivables			
Receivables from Group companies	90	90	7
Loan receivables		1	
Other long-term receivables	1		
	92	91	

Current receivables			
Trade receivables		1	
Receivables from Group companies	1,776	1,846	8
Other receivables		1	
Prepaid expenses and accrued income	22	41	9
	1,798	1,889	
Cash and bank balances	685	699	
Total current assets	2,575	2,680	
Assets	3,543	3,649	

MEUR	2021	2020	Note
EQUITY AND LIABILITIES			
Equity			10
Share capital	336	336	
Share premium reserve	61	61	
Reserve for own shares	-18		
Retained earnings	856	709	
Result for the financial period	188	265	
Total equity	1,423	1,371	
Accumulated appropriations			
Depreciation difference		1	
Provisions	9	13	
Liabilities			11
Non-current			
Loans from credit institutions	694	953	
Other long-term liabilities	1		

Current	695	953
Loans from credit institutions	70	130
Trade payables	10	6
Liabilities to Group companies	1,294	1,129
Other current liabilities	3	1
Accrued expenses and deferred income	40	44
	1,416	1,310
Total liabilities	2,111	2,263
Equity and liabilities	3543	3,649

PARENT COMPANY CASH FLOW STATEMENT

MEUR	2021	2020
Cash flow from operating activities:		
Result before appropriations and taxes	194	266
Adjustments for:		
Depreciation and amortisation	4	5
Gains and losses on sale of intangible and tangible assets		-2
Financial income and expenses	-226	-305
Cash flow before changes in working capital	-29	-36
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	-8	-14
Liabilities, non-interest-bearing, increase (+) / decrease (-)	-6	3
	-15	-11
Cash flow from operating activities before financial items and taxes	-44	-47
Interest and other financial expenses	-21	-60
Dividends received from operating activities	211	301
Interest and other financial income from operating activities	36	64
Income taxes paid	-4	-3
	221	301
Cash flow from operating activities	177	254
Cash flow from investing activities:		
Investments in tangible and intangible assets	-2	-3
Proceeds from sale of tangible and intangible assets	1	6

Cash flow from investing activities	-2	3
Cash flow after investing activities	176	257
Cash flow from financing activities:		
Loans receivables, increase (-) / decrease (+)	97	355
Current loans, increase (+) / decrease (-)	175	63
Proceeds from non-current borrowing		245
Repayments and other changes of non-current loans	-326	-51
Purchase of own shares	-18	
Group contributions	2	
Dividends paid	-118	-284
Cash flow from financing activities	-189	329
Change in cash and bank balances, increase (+) / decrease (-)	-14	586
Cash and bank at beginning of period	699	113
Cash and bank at end of period	685	699

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.

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	2021	2020
Rental income	3	3
Services to Group companies	105	88
Profit on sales of fixed assets	1	2
Total	109	93

2. PERSONNEL EXPENSES

MEUR	2021	2020
Wages and salaries	-38	-32
Pension costs	-6	-5
Other compulsory personnel costs	-1	-1
Total	-45	-38

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 382 (373).

3. DEPRECIATION AND AMORTISATION

MEUR	2021	2020
Depreciation and amortisation according to plan		
Other long-term expenditure	-2	-2
Machinery and equipment	-2	-2
Total depreciation according to plan	-4	-5
Tax depreciations	-4	-5
Depreciation difference		
Depreciation difference on 1 January	1	1
Depreciation difference on 31 December		1

4. FINANCIAL INCOME AND EXPENSES

MEUR	2021	2020
Dividend income		
From Group companies	211	301
Total	211	301
Other interest income		
From Group companies	18	27
From other companies	1	1
Total	19	29
Other financial income		
From Group companies	8	23
From other companies	9	12
Total	16	35
Exchange gains and losses	7	-2
Interest expenses		
To Group companies	-3	-4
To other companies	-8	-8

Total	-11	-12
Other financial expenses		
To Group companies	-13	-18
To other companies	-3	-28
Total	-16	-46
Financial income and expenses, total	226	305

5. INCOME TAXES

MEUR	2021	2020
Income taxes		
For the financial period	-6	-3
Total	-6	-3

6. FIXED ASSETS

Intangible assets

MEUR	Other long-term expenditures	Intangible assets and construction in progress	2021	2020
Acquisition cost at 1 January	117	1	118	124
Additions		2	2	1
Disposals	-4		-4	-7
Acquisition cost at 31 December	113	3	116	118
Accumulated amortisation at 1 January	-109		-109	-113
Accumulated amortisation on disposals and other changes	4		4	6
Amortisation during the financial period	-2		-2	-2
Accumulated amortisation at 31 December	-107		-107	-109
Carrying amount at 31 December 2021	6	3	9	
Carrying amount at 31 December 2020	8	1		9

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery, equipment and other tangible assets	2021	2020
Acquisition cost at 1 January	2	2	11	15	17
Additions					3
Disposals		-1		-1	-4
Acquisition cost at 31 December	2	1	11	14	15
Accumulated depreciation at 1 January		-1	-5	-6	-4
Amortisation during the financial period			-2	-2	-2
Accumulated depreciation at 31 December		-1	-6	-7	-6
Carrying amount at 31 December 2021	2		4	7	

Carrying amount at 31 December 2020	2	6		9
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Shares and securities

MEUR	Shares in Group companies	Shares in other companies	2021	2020
Acquisition cost at 1 January	950	2	951	951
Acquisition cost at 31 December	950	2	952	951
Carrying amount at 31 December 2021	950	2	952	
Carrying amount at 31 December 2020	950	2		951

7. NON-CURRENT RECEIVABLES

MEUR	2021	2020
Receivables from Group companies		
Loan receivables	90	90
Total	90	90

8. CURRENT RECEIVABLES FROM GROUP COMPANIES

MEUR	2021	2020
Trade receivables	50	27
Loan receivables	1,693	1,790
Derivatives	29	25
Other receivables	3	2
Prepaid expenses and accrued income	1	3
Total	1,776	1,846

9. PREPAID EXPENSES AND ACCRUED INCOME

MEUR	2021	2020
Derivatives	16	37
Other	5	4
Total	22	41

10. SHAREHOLDERS' EQUITY

MEUR	2021	2020
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
Reserve for own shares		
Reserve for own shares on 1 January		
Reserve for own shares on 31 December	-18	
Retained earnings		
Retained earnings on 1 January	974	994
Dividends paid	-118	-284
Result for the financial period	188	265
Retained earnings on 31 December	1044	974
Total shareholders' equity	1423	1371
Distributable equity	1026	974

At the end of the financial year 2021 the number of own shares held by Wärtsilä Oyj was 1,700,000 (0) and the book value of these shares was EUR 18 million (0)

11. LIABILITIES

MEUR	2021	2020
Non-current		
Interest-bearing	694	953
Non-interest-bearing	1	
Total	695	953
Current		
Interest-bearing	1,317	1,202
Non-interest-bearing	100	108
Total	1,416	1,310

Debt with maturity profile

MEUR	2021	2020
Loans from financial institutions:	763	1,084
Current		
<1 year	70	130
Long-term		
1-5 years	589	661
>5 years	104	292
Total	763	1,084

12. ACCRUED EXPENSES AND DEFERRED INCOME

MEUR	2021	2020
Derivatives	23	27
Personnel costs	12	9
Interest and other financial items	2	3
Other	4	4
Total	40	44

13. LIABILITIES TO GROUP COMPANIES

MEUR	2021	2020
Trade payables	22	13
Other current liabilities	1,247	1,072
Derivatives	23	43
Accrued expenses and deferred income	2	1
Total	1,294	1,129

14. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

2021

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
Derivatives		1	1	1
Derivatives from Group companies		7	7	7
Other receivables				
Current financial assets				
Interest-bearing receivables from Group companies	1,693		1,693	1,693
Trade receivables				
Trade receivables from Group companies	50		50	50
Derivatives		16	16	16
Derivatives from Group companies		22	22	22
Other receivables from Group companies	2		2	2
Cash equivalents	276		276	276
Cash and bank	409		409	409
Carrying amount by category	2,519	45	2,565	2,565
Non-current financial liabilities				

Interest-bearing debt	694	694	694
Derivatives	9	9	9
Derivatives from Group companies	3	3	3
Current financial liabilities			
Interest-bearing debt	70	70	70
Interest-bearing debt to Group companies	1,247	1,247	1,247
Trade payables	10	10	10
Trade payables to Group companies	22	22	22
Derivatives	14	14	14
Derivatives to Group companies	20	20	20
Other liabilities	2	2	2
Carrying amount by category	2,044	45	2,089

2020

	Measured at amortised cost	At fair value through the statement of income	Carrying amounts of the statement of financial position items	Fair value
MEUR				
Non-current financial assets				
Interest-bearing receivables from Group companies	90		90	90
Derivatives		1	1	1
Derivatives from Group companies		11	11	11
Other receivables				
Current financial assets				
Interest-bearing receivables from Group companies	1,790		1,790	1,790
Trade receivables from Group companies	1		1	1
Derivatives		37	37	37
Derivatives from Group companies		14	14	14
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	953
Derivatives		14	14	14

Derivatives to Group companies	8	8	8
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	14	14	14
Derivatives to Group companies	35	35	35
Other liabilities	3	3	3
Carrying amount by category	2,177	70	2,247

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

2021

MEUR	With external financial institutions	With Group companies	2021
Nominal values of derivative financial instruments			
Currency forwards, transaction risk	2,053	2,042	4,095
Interest rate swaps	408	130	538
Cross currency swaps	153		153
Total			4,787
Fair values of derivative financial instruments (level 2)			
Currency forwards, transaction risk	2	4	6
Interest rate swaps	-4	2	-2
Cross currency swaps	-5		-5
Total			

2020

MEUR	With external financial institutions	With Group companies	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

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 52 (59) months and 113 (125) months for intragroup contracts. The average maturity for cross currency swaps is 31 (30) 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	2021	2020
Guarantees and contingent liabilities		
On behalf of Group companies	4,162	2,889
Total	4,162	2,889
Future nominal lease payments		
Payable within one year	4	4
Payable after one year	23	26
Total	27	30

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 2021, the AGM appointed the audit firm PricewaterhouseCoopers Oy as Wärtsilä Corporation's auditor.

Auditors' fees

TEUR	2021	2020
Audit	340	341
Tax advisory	3	0
Other services	201	14
Total	544	355

PROPOSAL OF THE BOARD

The parent company's distributable funds total EUR 1,025,711,618.25, which includes EUR 188,242,387.72 in net profit for the year. There are 590,023,390 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 0.24 per share be paid, making a total of	141 605 613.60
That the following sum be retained in shareholders' equity	884 106 004.65
Totalling	1,025,711,618.25

The dividend shall be paid in two instalments. The first instalment of EUR 0.12 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 7 March 2022. The payment day proposed by the Board for this instalment is 14 March 2022.

The second instalment of EUR 0.12 per share shall be paid in October 2022. 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 27 September 2022. The dividend record day for the second instalment as per the current rules of the Finnish book-entry system would be 29 September 2022 and the dividend payment day 6 October 2022.

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 2022

Tom Johnstone

Risto Murto

Maarit Aarni-Sirviö

Karen Bomba

Karin Falk

Johan Forssell

Mats Rahmström

Tiina Tuomela

Håkan Angevall, 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 2021. 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

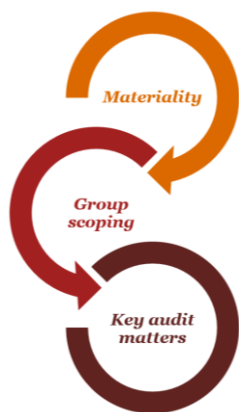
We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 € 18 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	€ 18 million (prior year € 20 million)
How we determined it	5% of profit before tax (five-year average)
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, the performance of the Group is most commonly measured by using this criteria, and it is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

The group audit scope was tailored to take into account the structure of the Group and the size, complexity and risk of individual subsidiaries. Using this criteria we selected companies and accounts into our audit scope and at the same time ensured that we get sufficient coverage to our audit, in order to issue an audit opinion for the Group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group

How our audit addressed the key audit matter

Revenue recognition of long-term contracts

Refer to the consolidated financial statements note 2.2.

The group has significant revenue from construction contracts and long-term operating and maintenance agreements. These long-term contracts are often complex customised solutions and meet the definition for revenue recognition over time in accordance with IFRS 15.

Revenue related to these construction contracts and long-term operating and maintenance agreements is recognised using the percentage of completion method, where progress is determined by comparing actual costs incurred to date, with the total estimated costs of the project. Revenue recognition for long-term contracts includes management judgment in a form of estimates, which are subject to

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 other 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

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.

comparing the actual results of delivered projects to previous estimates

- We challenged the management estimates and assumptions in projects, which were considered to include specific risk factors
- Recalculated the revenue based on the stage of completion of the projects. Ensured that the stage of completion is correct by comparing actual costs per the company's accounting records to the estimated total costs of the projects.

Valuation of goodwill

Refer to the consolidated financial statements note 3.1.

Goodwill is one of the most significant balance sheet items and amounts to € 1 374 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

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



the goodwill balance and the high level of management judgement involved.

- to the latest Board approved targets and long-term plans
- 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
- 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 € 896 million, including an impairment provision of € 80 million. The trade receivables include € 26 million long-term trade receivables.

Trade receivables are recognised at their anticipated realisable value,

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

which is the original invoiced amount less an estimated valuation allowance.

Valuation of trade receivables is a key audit matter in the audit due to the size of the trade receivable balance and the high level of management judgement used in determining the impairment provision.

- We obtained a list of long outstanding receivables and assessed the recoverability of these through inquiry with management and by obtaining sufficient corroborative evidence to support the conclusions.

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 five 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 4 February 2022

PricewaterhouseCoopers Oy
Authorised Public Accountants

Merja Lindh
Authorised Public Accountant (KHT)



Independent Auditor's Reasonable Assurance Report on Wärtsilä Oyj's ESEF Financial Statements (Translation of the Finnish Original)

To the Management of Wärtsilä Oyj

We have been engaged by the Management of Wärtsilä Oyj (business identity code 0128631-1) (hereinafter also "the Company") to perform a reasonable assurance engagement on the Company's consolidated IFRS financial statements for the financial year 1.1.-31.12.2021 in European Single Electronic Format ("ESEF financial statements").

Management's Responsibility for the ESEF Financial Statements

The Management of Wärtsilä Oyj is responsible for preparing the ESEF financial statements so that they comply with the requirements as specified in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 ("ESEF requirements"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of ESEF financial statements that are free from material noncompliance with the ESEF requirements, whether due to fraud or error.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies

and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express an opinion on the ESEF financial statements based on the procedures we have performed and the evidence we have obtained.

We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the ESEF financial statements are free from material noncompliance with the ESEF requirements.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about the ESEF financial statements compliance with the ESEF requirements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material noncompliance of the ESEF financial statements with the ESEF requirements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the Company's preparation of the ESEF financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, Wärtsilä Oyj ESEF financial statements for the financial year ended 31.12.2021 comply, in all material respects, with the ESEF requirements.

Our reasonable assurance report has been prepared in accordance with the terms



of our engagement. We do not accept, or assume responsibility to anyone else, except for Wärtsilä Oyj for our work, for this report, or for the opinion that we have formed.

Helsinki 4 February 2022

PricewaterhouseCoopers Oy
Authorised Public Accountants

Merja Lindh
Authorised Public Accountant (KHT)