

WÄRTSILÄ ANNUAL REPORT 2021

2021

A full-page background image of a diver in a bright orange dry suit and full-face mask, working on a large, dark, cylindrical object underwater. The diver is holding a thick yellow cable. The scene is set in clear blue water with some bubbles visible. The large number '2021' is overlaid in a light blue, semi-transparent font across the bottom half of the image.

WÄRTSILÄ IN BRIEF

Wärtsilä is a global leader in innovative technologies and lifecycle solutions for the marine and energy markets. We emphasise innovation in sustainable technology and services to help our customers continuously improve environmental and economic performance. Our dedicated and passionate team of 17,000 professionals in more than 200 locations in 68 countries shape the decarbonisation transformation of our industries across the globe.

www.wartsila.com

Wärtsilä's purpose is to enable sustainable societies through innovation in technology and services.

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This Annual Report is not an XHTML document compliant with the ESEF (European Single Electronic Format) regulation.

THIS IS WÄRTSILÄ



WÄRTSILÄ HAS SIGNIFICANT VALUE CREATION POTENTIAL



PURPOSE

ENABLING SUSTAINABLE SOCIETIES THROUGH INNOVATION IN TECHNOLOGY AND SERVICES



COMMITTED TO TARGETS

FINANCIAL TARGETS

- 5% annual organic growth
- 12% operating margin

"SET FOR 30" – DECARBONISATION

- A product portfolio ready for zero carbon fuels
- Carbon neutral in own operations

ENERGY

Intermittent sources of energy require balancing solutions. By 2030, the balancing power market is expected to grow >10X.

MARINE

An unprecedented rate of change driven by regulations and demand for green transport. 50% GHG reduction in shipping by 2050



TARGET POSITION

SHAPING THE DECARBONISATION OF MARINE & ENERGY



LEADING OFFERING TO SUPPORT OUR CUSTOMERS IN DECARBONISATION

FUEL FLEXIBLE ENGINES ENABLING DECARBONISATION

BATTERY, ENERGY SAVING, AND EMISSION ABATEMENT TECHNOLOGIES

THERMAL BALANCING AND ENERGY STORAGE

ENERGY EFFICIENCY & POWER SYSTEM OPTIMISATION

THE WIDEST SERVICE NETWORK IN THE INDUSTRY

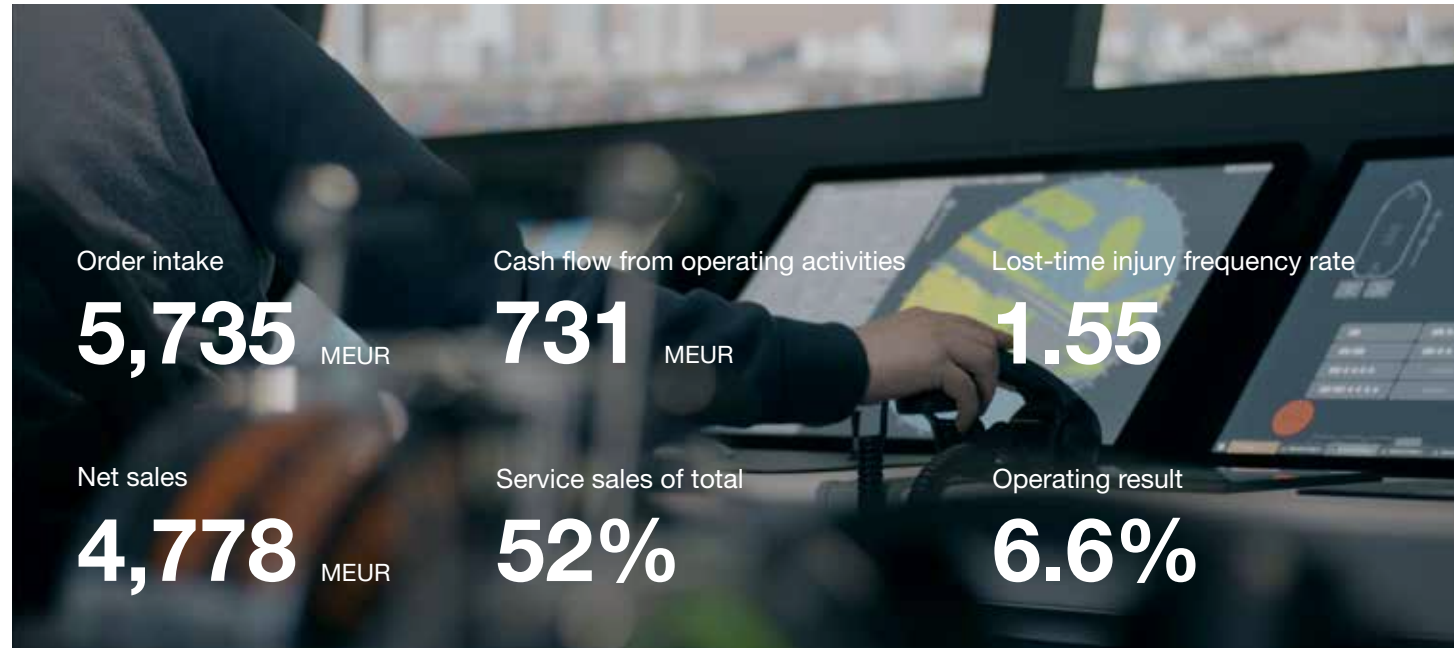
DIGITAL SOLUTIONS ENABLING OPTIMISED OPERATIONS AND SERVICE

2021 IN BRIEF

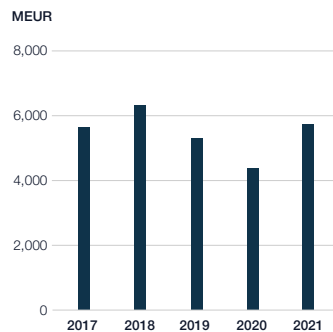


KEY FIGURES

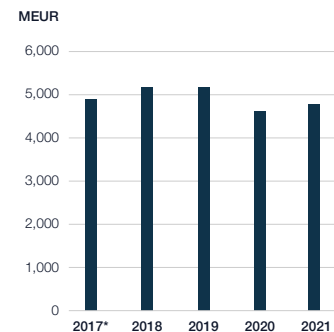
In 2021, order intake increased by 32% to EUR 5,735 million (4,359). Net sales increased by 4% to EUR 4,778 million (4,604), of which 52% related to services. Operating result grew by 34% and amounted to EUR 314 million (234) or 6.6% of net sales (5.1). Comparable operating result increased by 30% to EUR 357 million (275), which represents 7.5% of net sales (6.0). The Board of Directors proposes that a dividend of EUR 0.24 per share be paid for the financial year 2021, representing 73.2% of operational earnings. Lost-time injury frequency rate (LTIF) declined to 1.55 (2.03).



Order intake

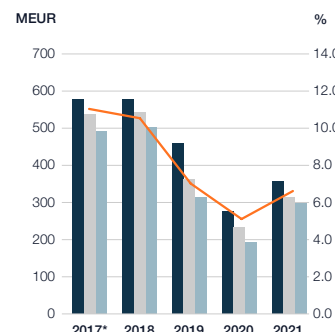


Group net sales development



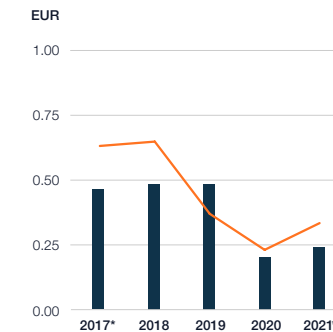
* Restated due to IFRS 15

Result



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

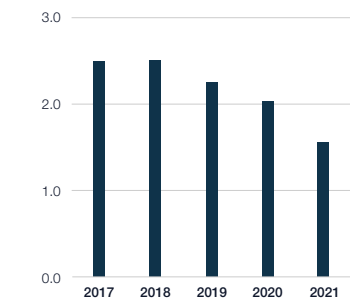
Dividend/share, earnings/share



■ Dividend/share
 — Basic earnings/share

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

Lost-time injury frequency rate (LTIF)



Personnel
17,000

Sales and service network
 in more than
200 locations

Operations in
68 countries



Net sales, geographical



Europe 33%
 Asia 31%
 Americas 27%
 Other 9%

Wärtsilä's position as a global company is reflected in the geographical breakdown of our net sales.

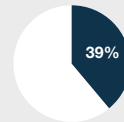
BUSINESSES IN BRIEF



Wärtsilä Marine Power

Wärtsilä Marine Power leads the industry in its journey towards a decarbonised and sustainable future. Our broad portfolio of engines, propulsion systems, hybrid technology, and integrated powertrain systems delivers the efficiency, reliability, safety, and environmental performance needed to support our customers to be successful. Our offering includes performance-based agreements, lifecycle solutions, and an unrivalled global network of maritime expertise.

Share of total net sales



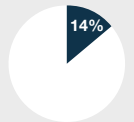
Personnel **8,224**



Wärtsilä Marine Systems

Wärtsilä Marine Systems supports customers with high quality products and lifecycle services related to the gas value chain, exhaust treatment, shaft line, underwater repair and electrical integrations. We are committed to providing the latest and most efficient solutions, in line with Wärtsilä's vision for a safe and sustainable future for our customers, our communities and our planet.

Share of total net sales



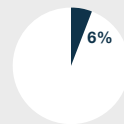
Personnel **1,894**



Wärtsilä Voyage

Wärtsilä Voyage transforms how vessels perform their journeys and ports manage their operations by leveraging the latest digital technologies. Using data and AI-driven software, we deliver real-time insights into operations, performance, and energy use to enhance safety, efficiency, and reliability, saving fuel and minimising emissions. Our solutions combine bridge infrastructure, cloud data services, decision support systems, and smart port solutions to enable shore-to-shore visibility. We are committed to building an end-to-end connected digital ecosystem for shipping where all vessels and ports are integrated, and all operations are safe and sustainable.

Share of total net sales



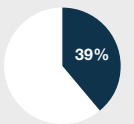
Personnel **1,725**



Wärtsilä Energy

Wärtsilä Energy leads the transition towards a 100% renewable energy future. We help our customers in decarbonisation by developing market-leading technologies. These cover future-fuel enabled balancing power plants, hybrid solutions, energy storage and optimisation technology, including the GEMS energy management platform. Wärtsilä Energy's lifecycle services are designed to increase efficiency, promote reliability and guarantee operational performance.

Share of total net sales



Personnel **4,980**

CEO REVIEW

In 2021, the Covid-19 pandemic continued to affect our end markets, our operations, and our financial performance. Meanwhile, we see signs of stabilisation and recovery in both the marine and energy markets. However, the new virus variant that started to spread at the end of 2021 is a concern.

**"OUR STRATEGY
WILL ENABLE US
TO ACCELERATE
THE DEVELOPMENT
TOWARDS MARINE
DECARBONISATION
AND THE SHIFT TO A
100% RENEWABLE
ENERGY FUTURE."**

As always, ensuring the health, safety, and well-being of our employees has been our highest priority. We have continued to focus on safety awareness, making it possible for us to decrease the frequency of lost time injuries by 23%, while working hard to keep the level of Covid-19 infections low. However, we still have room for further improvement in workplace safety. As the pandemic remains with us, we focus on the health of our people, and together we will continue to work on mitigating the negative impact on our customers and on Wärtsilä. I would like to take this opportunity to thank all Wärtsilä personnel for their remarkable resilience despite having to operate under Covid-19 circumstances for yet another year.

Among the key milestones of the year was the launch of our new strategic framework, the Wärtsilä Way, and new financial and decarbonisation targets. Going forward, the Wärtsilä strategy is focused on shaping the decarbonisation of the marine and energy industries. We emphasise customer success, innovation in technology and services, diverse teams making a difference, as well as continuous improvement. The strategy will enable us to accelerate the development towards marine decarbonisation and the shift to a 100% renewable energy future.

DEMAND ENVIRONMENT RECOVERING TO A VARYING DEGREE

The pace of recovery in our end markets has varied. In the marine markets, we saw mixed activity levels across different vessel segments. Vessel ordering activity overall improved, largely driven by containership orders. The surge in newbuild containership ordering was driven by growing and pent-up demand, along with logistical disruptions. At the same time, activity in our key vessel segments remained relatively low, particularly in the important cruise industry. Progress in Covid-19 vaccination programmes and the lifting of travel restrictions accelerated the reactivation of existing cruise and ferry fleets, which supports our service business. However, newbuild activity remained limited, and utilisation rates were still below 2019 levels. New Covid-19 variants pose a risk to further recovery. On a positive note, the

demand for offshore wind turbine installation vessels is likely to increase over the coming years, and marine service activity overall was at a relatively good level throughout the year.

In the energy markets, the market situation stabilised, and the increasing adoption of intermittent renewable energy in power systems is clearly bringing forward the need for various flexible solutions, such as thermal balancing power plants and energy storage. This was illustrated by strong demand for energy storage solutions, as well as by some important thermal power plant orders. Major contracts awarded included an order for a grid-scale storage system in Australia to support a broad portfolio of thermal and renewable generating assets, and to help the country to decarbonise. Major multi-fuel power plant orders for Mexico and United States, as well as for gas engine power plants in Brazil, provided a clear indication of demand for power plants operating with flexible internal combustion engines. Nevertheless, investments in new power plant capacity were postponed due to the pandemic, especially in the emerging markets. As vaccination programmes in many countries move slowly and new virus variants emerge, we expect that recovery will still take time.

FINANCIAL PERFORMANCE STILL IMPACTED BY COVID-19

Despite the challenges, we were able to improve our financial performance. Net sales increased by 4%, driven by growth in services and energy storage deliveries. Profitability also improved, driven by higher sales volumes and a more favourable sales mix between equipment and services. In 2021, services accounted for 52% of our total revenues. However, the operating result was still burdened by weaker than normal fixed cost absorption, caused by factories having to run at lower than usual capacity and the restricted mobility of field service personnel. Additionally, cost inflation put pressure on profitability during the year. To adjust our cost base, we for example implemented temporary layoffs in the Trieste factory during part of 2021, executed staff reductions in various parts of the organisation, and further optimised our footprint by closing a joint venture in China. Our cash flow

remained solid, driven by continued focus on receivables collection and credit control. This gives us freedom to continue to invest in R&D and potential M&A opportunities.

WELL-POSITIONED FOR THE DECARBONISATION TRANSFORMATION

The Wärtsilä Way sets the direction for profitable growth. Our value creation potential is 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. Our five strategic priorities, through which we strive to improve performance and shape the decarbonisation of the marine and energy industries, emphasise customer value, high-performing teams, decarbonisation, service growth, and continuous improvement.

In 2021, we also launched revised financial targets and the "Set for 30" decarbonisation targets. Financially, we aim for 5% organic growth annually and to reach a 12% operating margin. We see the biggest growth opportunities in energy storage, thermal balancing power, and services. Our continued R&D investments in sustainable fuel technologies position us well for the green transition in both the energy and marine businesses. Growth in these areas will contribute to reaching our profitability target. Our ambitious decarbonisation goal is that by 2030 we become carbon-neutral in our own operations and provide a product portfolio that will be ready for zero-carbon fuels. These new targets demonstrate our commitment to an economically, environmentally, and socially sustainable future. We are committed to supporting our customers on their decarbonisation journey, while minimising our own environmental footprint.

Going forward, the accelerated pressure on environmental performance remains the main underlying trend, as regulatory frameworks and wider policy announcements are ramping up to move faster towards a low-carbon society. We also see a continued evolution of markets for decarbonised shipping and energy, driven by demand from consumers, corporations, and investors. We continue investing in innovation to ensure a broad, industry-leading solution offering to our customers. Our product portfolio is already today enabled for carbon-neutral fuels and battery solutions. In 2021, we continued pioneering the adoption of sustainable fuels by launching a major test programme towards carbon-free solutions with hydrogen and ammonia. We expect to have engine concepts ready for operating with pure ammonia fuel in 2023 and with pure hydrogen by 2025. It is important to acknowledge that while much of the decarbonisation work in the marine and energy industries is still ahead, Wärtsilä already today has solutions and technologies that enable the transition to decarbonised shipping and 100% renewable power systems.

For the marine markets, we upgraded the successful 20DF dual-fuel engine, which can now deliver more power with less energy consumption, and its methane slip is lowered by as much as 40%. For the energy markets, we launched 34SG Balancer, the

optimal solution for balancing renewable power generation, and delivered the first units of our new modular Quantum platform for energy storage. Furthermore, we issued the 'Front-Loading Net Zero' report, demonstrating the environmental and economic opportunities for countries to decarbonise rapidly, leveraging renewables and balancing power. The report underlines that the technologies needed to achieve 100% renewable power systems are already available at scale around the world. Voyage initiated partnerships and projects globally to enable sustainable shipping. The digital systems such as Navi-Port and FOS optimise the vessel journey and enable just-in-time arrival for ships, saving fuel and reducing time at anchorage. Wärtsilä has an exceptional service network and capabilities to serve our customers globally. During the challenging times of Covid-19, our service team has kept our customers' assets operational, which is a truly fantastic achievement. Going forward, data, connectivity, and digital solutions will further support the growth in services.

Covid-19 continues to impact both of our end markets, and the global decarbonisation will have different pace geographically. However, Wärtsilä has significant value creation potential as a technology leader in the decarbonisation transformation. I am confident that our strategy, our technology leadership, and our industry leading service network position us well to capture opportunities arising from the increased environmental focus in the marine and energy industries. I would like to sincerely thank our customers and our shareholders for the trust that you continue to put in Wärtsilä. With all that we can offer, we have exceptional opportunities to make a difference in the world.

Håkan Agnevall
President & CEO

"We are committed to supporting our customers on their decarbonisation journey, while minimising our own environmental footprint."



STRATEGY

MARKET FUNDAMENTALS

MARINE will move with unprecedented speed towards decarbonisation

POLICIES & REGULATIONS

- IMO target: 50% less GHG emissions from shipping by 2050
- Access to capital: EU taxonomy, Poseidon principles and ESG
- Cost of carbon: carbon certificates e.g. EU Fit for 55, IMO carbon levy and local green policies
- Demand for green sea transport, driven by companies' environmental commitments to their customers and investors' push for sustainability targets

TECHNOLOGY

- Focus on carbon neutral and zero carbon fuels. Continued use of carbon fuels for many years, still
- Next steps in abatement technologies e.g. carbon capture
- Increase in battery systems, hybrids, and energy saving devices
- Focus on fuel efficiency and flexibility

CONNECTIVITY & DATA

- Vessels as data pools - system complexity increasing
- Optimisation solutions based on a holistic view of the entire transport system
- Performance-based agreements with a focus on uptime, reliability, and fuel efficiency
- Cyber security growing in importance
- Various degrees of autonomous operations



ENERGY is moving towards a 100% renewables future

POLICIES & REGULATIONS

- EU: Carbon neutral by 2050
- USA: carbon free electricity production by 2035, net zero emissions by 2050
- China: Carbon neutral by 2060
- Country climate pledges likely to become more progressive

TECHNOLOGY

- Wind and solar growing rapidly as the dominant source of energy
- Intermittent sources requiring balancing power
- Sustainable fuels for thermal balancing
- Digitalisation will create opportunities for optimising energy costs
- Cyber security growing in importance

GROWING ENERGY DEMAND

- Electricity generation is expected to grow by 3X, renewables by 8X ¹⁾
- Gradual replacement of coal and other fossil fuelled energy generation
- Power systems becoming increasingly complex with different types of generation assets



¹⁾ by 2050. Source: IEA World Energy Outlook 2021 (Net Zero Emissions Scenario).

THE WÄRTSILÄ WAY

In November 2021, we introduced our updated strategy, The Wärtsilä Way, to answer three questions in terms of company direction: why, where and how. The Wärtsilä Way defines our purpose, target position, strategic priorities, and values.

WHY

The way forward is guided by the purpose: it describes the reason why our company exists and sets the direction for how everyone at Wärtsilä can make a difference for the world. Wärtsilä's purpose is "Enabling sustainable societies through innovation in technology and services".

WHERE

The target position, "Shaping the Decarbonisation of Marine and Energy", reflects our ambition as a company: where does Wärtsilä want to be in the long term. Wärtsilä's target position is focused on customers, people, and performance.

HOW

The strategic priorities define Wärtsilä's most important focus areas in order for us to reach the target position. They outline the company direction in terms of reaching profitable growth, and clearly formulate the biggest opportunities for a positive impact on Wärtsilä's performance.

The values unite everyone at Wärtsilä and bring the strategy to life by guiding our behaviour when working together. Wärtsilä's values are Customer success, Passion, and Performance.



The values describe how we in Wärtsilä want to behave daily when working together. They are about how to interact and which behaviours are encouraged.

OUR VALUES

CUSTOMER SUCCESS

- We are successful by making our customers successful
- We truly understand our customers' business
- We listen to and talk with our customers
- We provide reliability and efficiency

PASSION

- We are proud of our work and celebrate success
- We innovate and find new ways to create value
- We value teamwork and inclusiveness
- We foster candour, respect and trust
- We engage with energy and drive
- We drive sustainability

PERFORMANCE

- We are committed to safety and zero injuries
- We take ownership and go the extra mile to deliver on our commitments
- We continuously improve and learn something new every day
- We look after Wärtsilä's best interests
- We take pride in quality
- We act with integrity

OUR PURPOSE

"Enabling sustainable societies through

We shape our markets by generating transformative results through collaboration, partnerships, market insight, and active engagement in ecosystems.

The long-term environmental, social, and economic impact of our operations drives our priorities and behaviour. We take pride in diversity, providing equal opportunities and demonstrating high ethical standards.

We care about the communities in which we operate, and our people want to make a difference for our customers and partners. We are committed to giving back to society.

innovation in technology and services"

We believe in challenging the status quo. We believe in implementing ideas that result in new solutions and new ways of working.

We are known as a thought leader in the industry. We deliver products and services that are reliable, efficient, and which fulfil customer needs.

We believe our customers' success is our success. We serve our customers and partners with a cooperative and data driven approach throughout the entire lifecycle.

TRANSFORM AND PERFORM

WÄRTSILÄ'S STRATEGY IS BASED ON TWO KEY THEMES: TRANSFORM AND PERFORM.

The decarbonisation transformation of both the marine and energy sectors is accelerating. It will be made possible by numerous new technologies and alternative fuels. Wärtsilä is set for performance and is well-positioned to drive this transformation.

Led by the key themes, we are embarking on a new phase in Wärtsilä's development – Shaping the decarbonisation of marine and energy.

1 TRANSFORM – Decarbonisation creates new business opportunities

2 PERFORM – Leverage market recovery and growth



2002–2010

LIFECYCLE POWER SOLUTIONS

Expansion into propulsion, services acquisitions



2011–2015

BECOMING A TOTAL SOLUTIONS PROVIDER

Expansion into environmental solutions, acquisitions in Electrical & Automation



2016–2020

SMART MARINE AND 100% RENEWABLE ENERGY

Digital solutions, end-to-end value chains, divestments



2021–

SHAPING THE DECARBONISATION OF MARINE AND ENERGY

Customer & services focus, technology leadership, organic growth, continuous improvement

TRANSFORM

DECARBONISATION CREATES NEW BUSINESS OPPORTUNITIES

Decarbonisation will transform the world and creates new business opportunities both in marine and energy. In marine, there will be an unprecedented rate of change in new build and existing fleet. Regulations and the demand for green transport will accelerate change. In energy, electricity generation is expected to grow by 3X and renewables by 8X by 2050. By 2030, the balancing power market is expected to grow by 10X.

As a technology leader in the decarbonisation transformation, Wärtsilä has significant value creation potential as a pioneer and leading partner for decarbonisation. The company is the front-runner in sustainable fuel technologies, for both carbon neutral and zero carbon fuels, such as biofuels, methanol, ammonia, and hydrogen blends, while at the same time delivering technologies that maximise energy efficiency when using fossil fuels.

Wärtsilä has a leading position in power system optimisation of different generating assets, where both energy storage and thermal balancing power solutions play a key role. In marine, Wärtsilä is a pioneer in electric drivetrains, carbon capture solutions, and in digital offerings related to marine optimisation. The company is also partnering up to offer complementary technologies for the decarbonisation transformation.



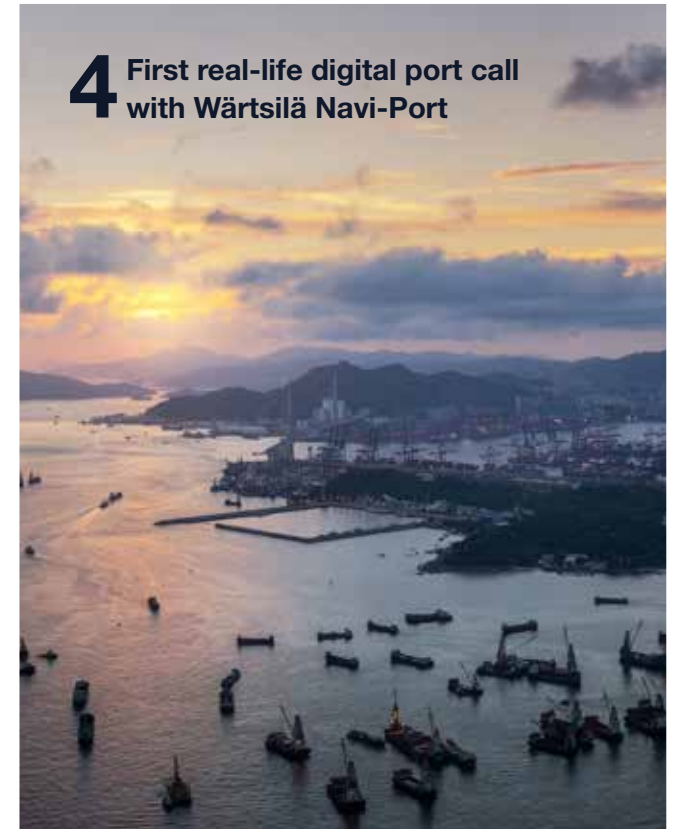
1 Major test programme launched, 100% ammonia concept in 2023, 100% hydrogen in 2025



2 Wärtsilä 34SG Balancer launched for balancing renewable generation



3 First Wärtsilä GridSolv Quantum delivered in the USA



4 First real-life digital port call with Wärtsilä Navi-Port

PERFORM

Wärtsilä is well-positioned to leverage market recovery and growth. The organic growth is driven by opportunities in decarbonisation, as well as in services. This organic growth is complemented by potential partnerships and synergistic bolt-on acquisitions.

The existing installed base provides a strong foundation for services growth. Moving up the service value ladder has significant growth potential, both in marine and energy, and is supported by our strong offering in the transactional services business, and by performance-based agreements. The green transformation provides a notable opportunity for retrofits and conversions.

We focus on performance excellence and robust execution, building on transparency and accountability in our businesses. All our businesses have clear profit and loss responsibility, enabling decisions to be made closer where customer value is created. To create sustainable long-term value, we foster high performing teams with focus on continuous improvement. In doing so, we believe in attracting and retaining the best talent whom we care about and develop.

The strong balance sheet and financing structure support the strategy execution. Wärtsilä has clear financial targets and a strong commitment to realise them. With clear capital allocation principles and active portfolio management, we are set to deliver long-term shareholder value.



#1-3 in global markets

Financial targets:

- 5% annual organic growth
- 12% operating margin

"Set for 30" decarbonisation targets:

- carbon neutral in our own operations by 2030
- a product portfolio ready for zero carbon fuels by 2030



Clear financial targets and strong commitment to realise them



Robust capital allocation principles and active portfolio management



Notable opportunity in retrofits and conversions



Extensive service network, positioned for growth both in transactional services and performance-based agreements

Focus on:

- High performing teams
- Performance excellence and robust execution
- Continuous improvement
- Cost structure – actions taken whenever and wherever necessary

STRATEGIC PRIORITIES

1

EXCEL IN CREATING CUSTOMER VALUE

We continuously evolve our understanding of, and responsiveness to, our customers to make them successful.

2

DEVELOP HIGH PERFORMING TEAMS THAT MAKE A DIFFERENCE

We attract high performing people and excite diverse teams that excel in continuous learning and collaboration. Our leaders provide direction and support, empowering people to act.

3

DRIVE DECARBONISATION IN MARINE AND ENERGY

We accelerate decarbonisation in marine and energy through innovation, focused investments, and selective partnerships, while also decarbonising our own operations. We provide optimisation solutions and are a thought leader in our industries.

4

CAPTURE GROWTH IN SERVICES

We excel in transactional and retrofit business. We move up the service value ladder by growing in performance-based agreements.

5

CONTINUOUSLY IMPROVE OUR END-TO-END VALUE CHAIN

We continuously improve our end-to-end business to meet customer expectations on quality, lead time and delivery accuracy, while reducing complexity and improving competitiveness. We leverage digitalisation throughout our value chain.



COMPANY TARGETS

NET SALES

Target

5% annual organic growth

Development

In 2021, organic net sales growth was 6% and net sales amounted to EUR 4,778 million.

PROFITABILITY

Target

12% operating margin

Development

In 2021, operating result amounted to EUR 314 million, which represents 6.6% of net sales.

DIVIDEND

Target

At least 50% of earnings

Development

The Board of Directors proposes that a dividend of EUR 0.24 per share be paid for the financial year 2021, representing 73.2% of operational earnings.

"SET FOR 30" DECARBONISATION TARGETS

- A product portfolio ready for zero carbon fuels by 2030
- Carbon neutral in our own operations by 2030

The Wärtsilä "Set for 30" commitment was published in October 2021. Read more in the [Climate change & environment](#) -section.

CAPITAL STRUCTURE

Target

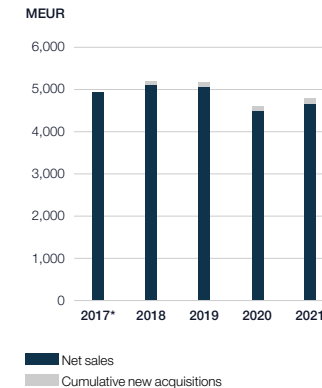
Gearing below 0.50

Development

In 2021, gearing was 0.00.

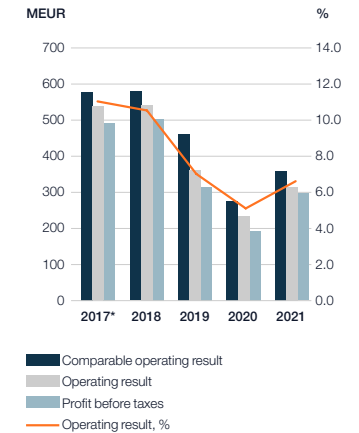
Wärtsilä drives growth by acting as a pioneer and a leading partner for decarbonisation. We can make a difference in our industries and in the world, while securing financial performance and delivering attractive long-term shareholder value.

Net sales

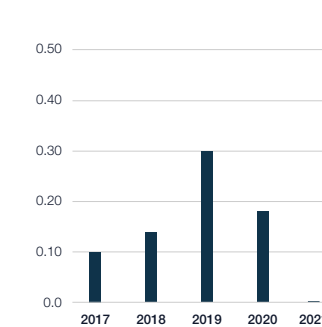


CAGR 2017-2021:
Wärtsilä's net sales -0.1% organically
* Restated due to IFRS 15

Result

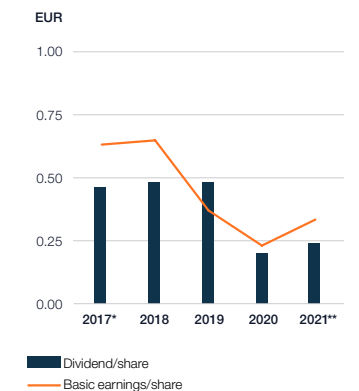


Gearing



* In 2021, gearing was 0.00

Dividend/share, earnings/share



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

DELIVERING CUSTOMER VALUE IN MARINE

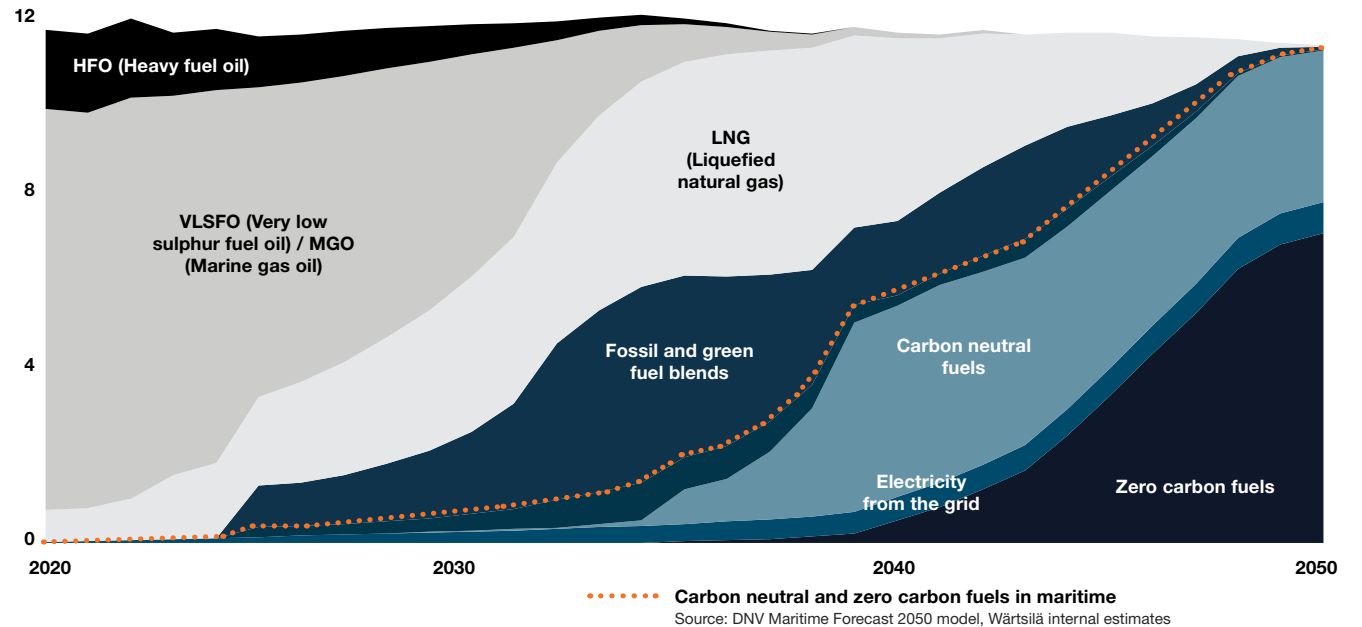
Decarbonisation is shaping the future of the marine industry with a targeted 50% reduction in GHG emissions from shipping by 2050. At Wärtsilä, we are well-positioned to support our customers in the decarbonisation transformation with fuel flexibility, efficiency optimisation, emission abatement technologies, and digital services. 2050 is a single vessel's lifespan away, and the technology decisions for new vessels are being made now.

Wärtsilä is developing an unprecedented range of engine and fuel gas supply systems to help ship owners navigate the route to reduced greenhouse gas emissions – fuel flexibility and efficiency being at the centre of the development activities.

With Wärtsilä's multifuel technology, ranging from transition fuels to sustainable, 100% green fuels, our customers have a viable upgrade path for the future. Already today, Wärtsilä engines are able to run with biofuels, methanol, and up to 25% hydrogen blends. In 2023, Wärtsilä will have a 100% ammonia concept ready, followed by a 100% hydrogen concept in 2025.

Wärtsilä's fleet optimisation and safety solutions manage voyage performance with real-time decision support, helping our customers in achieving optimised routing and port operations with tangible fuel savings.

MOVING FROM A SINGLE-FUEL INDUSTRY TO A MULTI-FUEL ONE
Distribution of fuel types for Decarbonisation 2050 (1.5°C scenario), EJ



HIGHLIGHTS IN 2021

WORLD'S FIRST DIGITALLY CONTROLLED PORT ARRIVAL

In partnership with Tanger Med Port Authority, Hapag-Lloyd, and Anglo-Eastern Ship Management, Wärtsilä enabled [the world's first digitally controlled port arrival](#) by using the Wärtsilä Navi-Port system, enabling Just-in-Time arrival, thereby saving fuel and eliminating time at anchor.

TESTING CARBON-FREE ENGINE FUELS

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. Wärtsilä and Grieg Edge have undertaken a [joint project to have a tanker vessel both transporting and operating on green ammonia](#).

CARBON CAPTURE

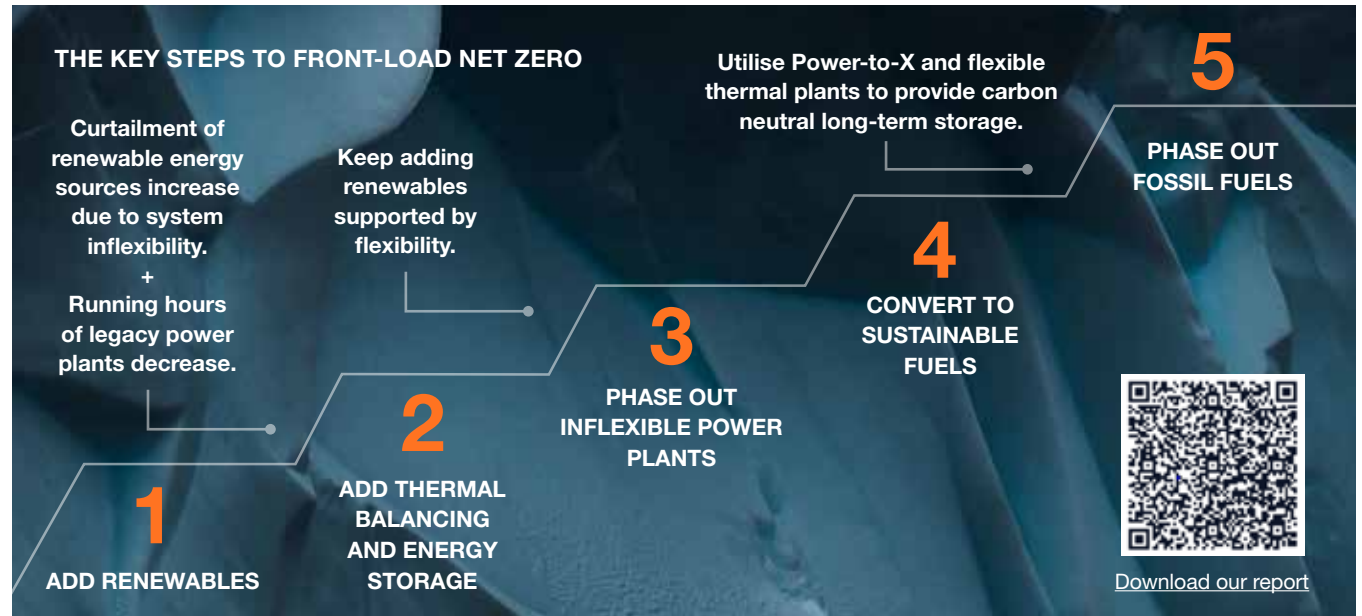
We are driving the development of [maritime carbon capture and storage technologies](#), and will be one of the leading partners in the LINCCS (linking carbon capture and storage) consortium, strengthening the decarbonisation pathway for shipping.

DELIVERING CUSTOMER VALUE IN ENERGY

Wärtsilä offers flexible power plant solutions, providing both baseload generation and balancing power to support an optimised transition to renewable energy. Considering the intermittency of wind and solar, the transition to 100% renewables requires balancing power. Our market-leading technologies allow our customers to increasingly add renewables to their power system safely, to futureproof their assets, and to reduce emissions. With our deep understanding of power systems and future generation technologies, we support our customers on their path towards decarbonised operations.

Our balancing solutions can ramp up and down quickly, keeping the power grid stable using energy storage solutions for shorter firming periods and dispatchable gas engines for unlimited periods. Thermal balancing and energy storage are complementary technologies. Our flexible engine power plants can use 100% synthetic and carbon-neutral methane and methanol, and are also capable of using hydrogen/natural gas blends containing up to 25% hydrogen – and a pure hydrogen solution is in the pipeline.

As the share of renewables in the energy mix grows, more balancing power is needed. Careful planning of the development of power systems can save billions and rapidly reduce CO₂ emissions. We create value through our extensive power system knowledge and experience from integrating different generating assets. With our leading software platform, GEMS, we can help our customers optimise different generation assets, advancing the lowest overall energy cost. Wärtsilä has conducted more than 150 country and system studies worldwide, and is well-prepared to support its customers in frontloading net zero.



HIGHLIGHTS IN 2021

MODULAR ENERGY STORAGE PLATFORMS

The first delivery has been made of the Quantum units, [our modular platform for energy storage](#) that includes different sub systems – thermal management and safety enclosure – to ensure safe, efficient delivery at the lowest lifecycle cost.



THERMAL BALANCING POWER ENABLES A RAPID INCREASE IN RENEWABLES

Wärtsilä has signed an agreement to provide 156 MW of [thermal balancing power](#) for Omaha Public Power District, enabling a rapid increase in the adoption of renewables in Nebraska, USA.



DELIVERING CUSTOMER VALUE IN SERVICE

Wärtsilä's industry leading service network is a key enabler for superior uptime, reliability and total lifecycle solutions, all of which ensure customer success. The network provides preventive, responsive, and optimised service, as well as lifecycle upgrades and remote support throughout the lifecycle of an installation. With our quality field service professionals across the globe, we can provide our customers with timely support wherever needed.

Wärtsilä has significant growth opportunities in all steps of the service value ladder. In transactional services, we support our customers by leveraging digital solutions for customer intelligence and automated lead management. We deliver enhanced performance through optimised maintenance and performance-based agreements, where we share the operational risk and guarantee performance by leveraging connectivity, big data, and analytics.

The green transition is expected to provide a more than EUR 2.5bn opportunity for retrofits and conversions of Wärtsilä's running engine fleet over the next 5-10 years.

2-5X¹⁾
AGREEMENTS & PERFORMANCE-BASED AGREEMENTS

RETROFITS & UPGRADES

1X¹⁾
OPTIMISED MAINTENANCE

TRANSACTIONAL

- Spare parts
- Field services

MOVING UP THE SERVICE VALUE LADDER

1) Customer spending ratio EUR/kW

HIGHLIGHTS IN 2021



GAS CONVERSION PROJECT IN SENEGAL

[Converting a power plant in Senegal to operate on liquefied natural gas \(LNG\)](#) accelerates the country's move to cleaner energy production.



MINIMAL CARBON FOOTPRINT

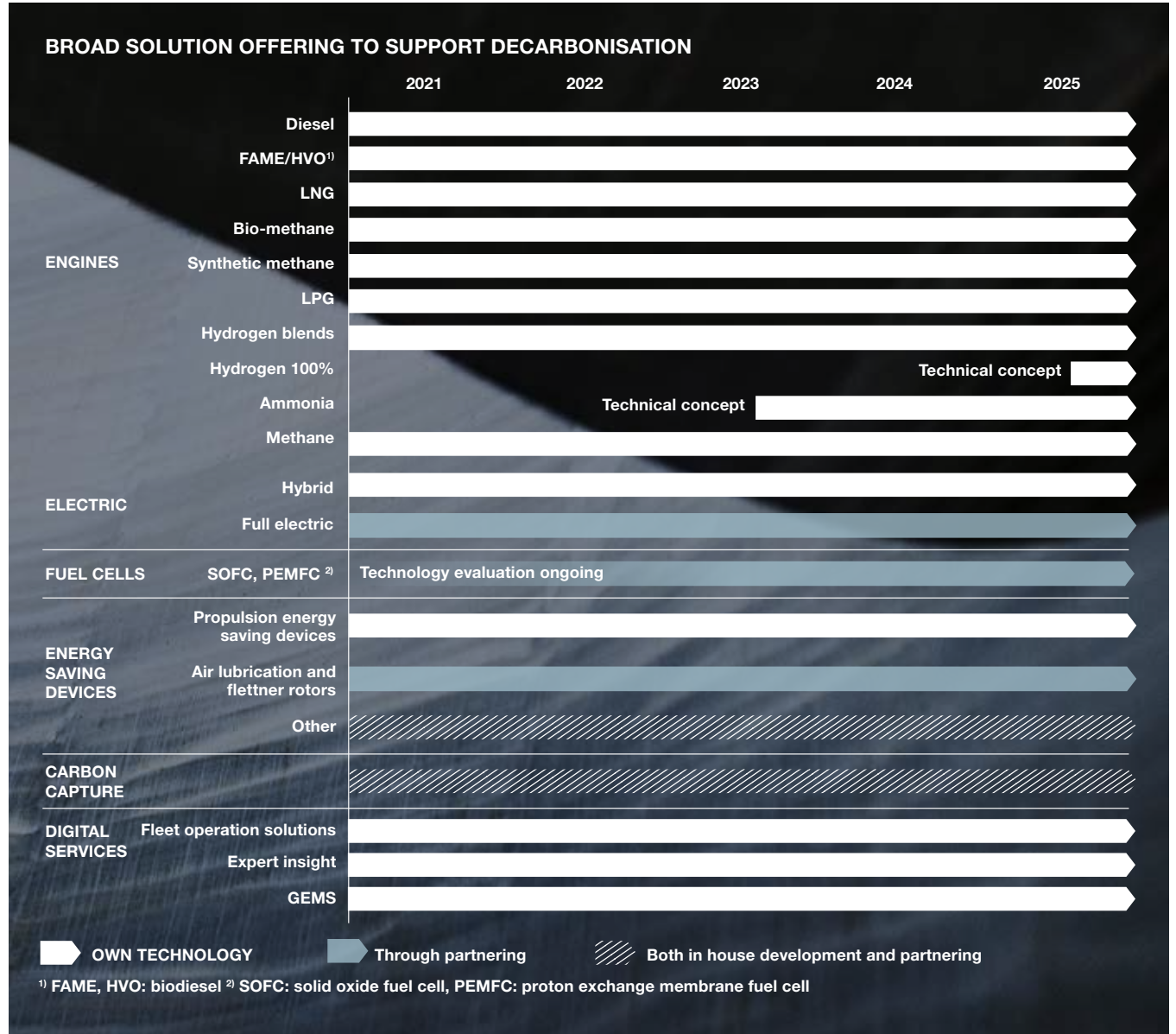
Wärtsilä ensures optimal performance and a minimal carbon footprint for the world's most environmentally friendly ferry.

DELIVERING CUSTOMER VALUE THROUGH LEADING R&D AND PARTNERSHIPS

At Wärtsilä, we believe that there will be a need for a broad array of solutions to decarbonise marine and energy. Different solutions will be used in different applications and in different geographies. There will be a gradual shift to new technologies, blending different types of fuel. Our focus in-house will remain in developing core technologies. Through partnering with technology providers, we are able to ensure a broad solution offering for our customers.

We continue to see strong synergies between marine and energy in research and development (R&D) and manufacturing of the new technologies. Throughout the decarbonisation transformation, Wärtsilä will continue to invest a stable ~3% of net sales in R&D.

- A proactive dialogue on our customers' specific technology roadmap
- The competence & experience to engage in a credible customer dialogue on "all" technologies
- A solution offering for "most" technologies
- Leveraging leadership in core technologies and partnering for complementary technologies





SUSTAINABILITY



HIGHLIGHTS

HIGHLIGHTS 2021



WÄRTSILÄ SELECTED AS A PREFERRED SUPPLIER FOR AGL ENERGY'S GRID-SCALE ENERGY STORAGE PLANS

AGL Energy Limited, one of Australia's leading integrated energy companies, selected Wärtsilä as one of two preferred suppliers for their up to 1,000 MW grid-scale energy storage plans for the next five years. In addition to its state-of-the-art energy storage and energy management systems, Wärtsilä's full engineering, procurement, and construction (EPC) capabilities were among the reasons cited by AGL in selecting Wärtsilä as an energy storage technology partner. The grid-scale energy storage plans will play a key role in the Australian energy industry's transition away from traditional fossil fuels towards cleaner energy.

WÄRTSILÄ'S SEA TRAFFIC MANAGEMENT SYSTEM INCREASES SAFETY AND EFFICIENCY OF SHIPPING IN CROATIAN WATERS

Wärtsilä completed an extensive upgrade of the Croatian National Vessel Traffic Management & Information System (VTMIS) with the new Sea Traffic Management (STM) functionality. STM includes route optimisation services, such as ship-to-ship route exchange, enhanced monitoring, port call synchronisation, and winter navigation. The goals behind the full deployment of STM by 2030 include a 50% reduction in accidents, a 10% reduction in voyage costs, and a 30% reduction in waiting time for berthing, as well as 7% lower fuel consumption with a corresponding reduction in greenhouse gas emissions.

WÄRTSILÄ COMMITS TO CARBON NEUTRALITY BY 2030

Wärtsilä announced its 'Set for 30' commitment to achieving ambitious climate targets. Wärtsilä's goal is that by 2030 it will:

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



WÄRTSILÄ HYBRID SOLUTION WILL MINIMISE NEW CANADIAN FERRY'S CARBON FOOTPRINT

Wärtsilä was awarded the contract to supply an integrated hybrid propulsion solution for a Ro-Ro ferry which will operate across the Kootenay Lake in British Columbia, Canada. By opting for Wärtsilä's hybrid solution rather than a conventional propulsion arrangement, the operator will benefit from reduced fuel consumption and a far lower level of exhaust emissions. This is extremely important for preserving the pristine environment in which the vessel will operate. An additional benefit is that through reducing the running hours of the engines, maintenance requirements and costs are also lowered.

WÄRTSILÄ TO SUPPORT BAHAMAS IN ACHIEVING A DECARBONISED FUTURE WITH AN OPTIMISED ENERGY SYSTEM

Wärtsilä will supply a 25 MW / 27 MWh advanced energy storage system for Bahamas Power and Light Company (BPL). In combination with a 132 MW power plant operating on seven Wärtsilä 50DF dual-fuel engines supplied to BPL in 2019, the integrated Wärtsilä solution will provide the Bahamas with an optimised energy system that meets the spinning reserve requirements, while significantly improving generation efficiency and system reliability for the island's grid. The combination of flexible power generation and energy storage utilising Wärtsilä's unique GEMS Digital Energy Platform will support the Government of the Bahamas' plans to increase its share of renewable sources, notably solar, by 30% by 2030.



WÄRTSILÄ SELECTED TO SUPPLY WORLD'S LARGEST BIOLNG PRODUCTION PLANT

Wärtsilä will supply a biogas liquefaction plant for Norway-based Biokraft, a subsidiary of the Scandinavian Biogas Group and a major player in the global biogas market. The 25 tons per day capacity plant will extend an existing bioLNG production plant at Skogn in Norway, also supplied by Wärtsilä, to a combined total of 50 tons per day, making it by far the largest facility of its kind in the world. BioLNG is an abundant renewable energy source that is used as 'green' fuel in transportation, industrial, and marine applications.

WÄRTSILÄ SUPPORTS YOUNG AFRICAN TALENT VIA A STRATEGIC PARTNERSHIP WITH AMBITIOUS.AFRICA

Wärtsilä entered into a strategic partnership with Ambitious.Africa, an initiative that aims to act as a bridge between Africa and the Nordic countries. By working together, the partners can connect students, entrepreneurs, start-up companies, financiers, and various stakeholders from both continents to address common challenges through a novel approach aimed at empowering future generations. The focus of the main projects in 2021 was on local communities in Morocco and Nigeria, and students at African and Nordic universities.

WÄRTSILÄ AND EIDESVIK OFFSHORE TO COOPERATE IN WORLD'S FIRST AMMONIA CONVERSION PROJECT

Wärtsilä and Norwegian ship owner Eidesvik Offshore ASA signed a landmark cooperation agreement aimed at converting an offshore supply vessel (OSV) to operate with an ammonia-fuelled combustion engine 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 conversion will allow the vessel to operate with a 70% ammonia blend, which will drastically reduce its CO2 emissions. Wärtsilä and Eidesvik are also partners in the EU-funded ShipFC project to equip a platform supply vessel, the 'Viking Energy', with a 2MW fuel cell running on green ammonia. This ammonia conversion project also ties in with one of the ongoing work streams of the Wärtsilä-led Zero Emissions Energy Distribution at Sea (ZEEDS) project, aimed at developing ammonia-powered newbuilds and converting suitable existing vessels.

WÄRTSILÄ SUPPORTS EU AND WATERBORNE TECHNOLOGY PLATFORM PARTNERSHIP

An agreement for a co-programmed "Zero Emission Waterborne Transport" partnership between the European Commission and the Waterborne Technology Platform was signed. The aim of the partnership is to demonstrate zero-emission solutions for all main ship types and services before 2030, which will enable zero emission waterborne transport before 2050. Wärtsilä contributed to the preparation phase of the partnership agreement and will support the programme's internal processes by helping to define the partnership's strategic goals, monitoring and guiding its progress, and ensuring proper functioning of the partnership.

WÄRTSILÄ AND LUT UNIVERSITY JOINT STUDY ON CARBON NEUTRAL POWER SYSTEM IN INDIA BY 2050

Wärtsilä and Lappeenranta-Lahti University of Technology (LUT) in Finland published a first-of-its-kind power system study exploring a carbon neutral power system across India by 2050. The study analysed the development of the power system using a best policy scenario, in which power sector greenhouse gas emissions reach zero by 2050 through the comprehensive adoption of sustainable energy and flexible technologies. The study highlights the fact that India stands to gain economically and environmentally by completely shifting towards a renewable powered electricity mix, with flexible technologies providing system reliability.



SUSTAINABILITY AT WÄRTSILÄ

SUSTAINABILITY AT WÄRTSILÄ

OUR SUSTAINABILITY APPROACH

At Wärtsilä, sustainability is at the core of our purpose and strategy. Along with our values, principles, and sustainability objectives, they create the framework for our product development and responsible business practices. Our sustainability strategy is based on three closely interrelated pillars: economic, environmental, and social performance. We aim to be a profitable company that contributes towards the well-being of society by being a forerunner in sustainable solutions while demonstrating high ethical, and health and safety standards. Because of our strong emphasis on decarbonising the marine and energy markets, innovative and efficient solutions play a central role in our positive contribution towards a low carbon future. Wärtsilä businesses focus on developing and providing solutions and services that maximise the environmental and economic performance of fleets and individual vessels, power plants and entire systems. This is further enhanced by utilising lifecycle data, analytics and artificial intelligence.

Our [sustainability targets](#) express our focus areas and provide information on Wärtsilä's performance. In 2021, we set new targets and made conceptual changes to our target setting. First, we switched from a fixed timeline to dynamic target setting. This allows us to re-evaluate the feasibility of the targets in case of major changes, and to add new targets when needed, on an annual basis. Secondly, we set targets under three long-term focus themes: Towards carbon neutrality, Enhancing safety, diversity and wellbeing, plus An active and responsible member of society.

In 2021, we set new sustainability targets under three long-term focus themes.

WÄRTSILÄ'S SUSTAINABILITY APPROACH



Wärtsilä is included in several sustainability indices. In 2021, Wärtsilä was selected as an index component of the Dow Jones Sustainability Indices (DJSI), both in the DJSI World and DJSI Europe indices, for the sixth year in a row. We are also included in the FTSE4Good Index Series, Ethibel Sustainability Index (ESI) Excellence Europe, MSCI ACWI ESG Leaders Index, S&P Europe 350 ESG Index, ECPI ESG Indices, OMX GES Sustainability Finland Index, and the STOXX Global ESG Leaders Index. More information can be found on [our website](#).

SUSTAINABILITY GOVERNANCE

Sustainability is governed by the Board of Directors and the Board of Management. The Board of Directors oversees the implementation of the sustainability strategy and reviews major related issues on at least an annual basis. Wärtsilä's Board of Management has overall responsibility for sustainability performance and approves the guiding group-level policies. Wärtsilä's sustainability targets and their progress are reviewed by the Board of Management and Board of Directors at least twice a year. All the targets have nominated target owners, who prepare action plans, oversee the implementation, and report on the proceedings. The management teams of the businesses and global functions ensure execution of the target actions.

In 2021, new ways of working for Wärtsilä's senior management were launched. In addition to the Board of Management's weekly and monthly meetings, there are nine thematic Boards as well as quarterly Business Reviews and Functional Reviews for each Global Function three times a year. Sustainability issues are discussed under the Corporate Affairs Board, which is sponsored from the Board of Management by the Executive Vice President, Corporate Relations and Legal Affairs, and in Functional reviews. Sustainability-related issues for the Corporate Affairs Board meetings are prepared in the cross-functional Corporate Relations and Sustainability Committee. In 2021, the committee convened five times and the Corporate Affairs Board twice.

Wärtsilä's sustainability function is responsible for providing the necessary information to management, identifying development needs, as well as for coordinating sustainability programmes and preparing instructions. The function cooperates closely with the businesses, human resources, legal affairs and compliance, and central supply management. It also collects and consolidates sustainability data from the subsidiaries.

SUSTAINABILITY MANAGEMENT AND MATERIAL TOPICS

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

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

The guiding principles lay the foundation for uniform management practices. Our [Code of Conduct](#) defines common rules for all employees and provides guidance on our approach to responsible business practices. [The Quality, Environmental, Health and Safety Policy](#) sets principles for managing the environmental impacts of our products and services. The [policy on human rights, equal opportunities and fair employment practices](#) creates a common framework for employee practices in all group companies. It covers human and labour rights, equal opportunities, well-being at work, non-harassment, and

remuneration. The Corporate Manual also includes other policies, such as [anti-corruption](#), compliance reporting, and supply management policies. The purpose of the manual is to safeguard compliance with relevant legislation, and to provide further guidance concerning daily business conduct.

SUSTAINABILITY RISK MANAGEMENT

Wärtsilä identifies and assesses on an annual basis its sustainability risks, including climate change risks, in both its strategic and operative risk assessments. In 2021, together with an external partner, we finalised a sustainability risk assessment project, the purpose of which was to identify and evaluate strategic and operational sustainability risks relevant to Wärtsilä. As part of the project, we organised management workshops,

assessed the risks via a survey, and validated the risks through a series of workshops for management, regions, and supply chain management. Results of the project will be integrated into Wärtsilä's enterprise risk management (ERM) system. In general, the sustainability risks, both strategic and operational, were assessed to be low for Wärtsilä. However, strategic risks were evaluated as being slightly more significant than the operational risks. Based on the project, the most relevant strategic risks for Wärtsilä are related to ethical business conduct, regulatory compliance, understanding customer sustainability demand, financing, and climate change impacts. The most significant operational risks are related to product design and natural hazards. Further information on risks can be found in the [Risks and risk management section](#).



We finalised a risk assessment project to evaluate our strategic and operational sustainability risks.

STAKEHOLDER ENGAGEMENT

Active engagement with our stakeholders is vital for the development of our business activities, as well as for exchanging information, building long-lasting relationships, and contributing to sustainable societies. At the corporate level, we have defined our most important stakeholders as being our customers, owners, suppliers, employees, and society in general. Wärtsilä subsidiaries define their own primary stakeholders. In addition to the ones mentioned above, these typically include residents close to production plants, educational institutes, and public authorities. We engage with our stakeholders in numerous ways, including meetings and events, joint projects, communication channels, and collaboration platforms. More information about our activities with stakeholders and engagement channels can be found on our [website](#).

We also take part, and hold memberships, in organisations that are significant to the company's business strategies and markets. We participate in activities organised by various international and national organisations and associations through our daily work, board and working group activities, as well as meetings, seminars and conferences.

SUPPLY CHAIN MANAGEMENT

Suppliers and business partners are an important and integral part of the total value chain for Wärtsilä's products and services. The supply base is extensive with around 31,000 active supplier accounts, with most key suppliers being located in Europe.

We expect our suppliers to conduct their businesses in compliance with the same high legal and ethical standards and business practices as ours. Wärtsilä has general supplier requirements for areas of compliance with legislation, environmental aspects, quality, occupational health and safety management, social performance, and cyber security. Compliance with these requirements is assessed, both in the selection and onboarding of new suppliers, as well as in the company's continuous supplier performance management. The general supplier requirements are included in our standard

supply agreements. In addition, we have product and service-specific requirements, for which compliance is assessed as part of the above-mentioned continuous supplier performance management process.

In the supplier assessment, we utilise a number of methods and tools. These include online and offline questionnaires, global database searches, onsite evaluations and various audits, which are completed with mitigation plans made together with the suppliers for any findings identified. The supplier assessment is completed with a supplier rating being applied. The responsible category management teams carry out the assessment together with other functions in Wärtsilä and with the suppliers. More information about our supplier assessment process is available on our [website](#).

COMMITMENTS AND PRINCIPLES

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

Wärtsilä also contributes in a positive way to several of the United Nations Sustainable Development Goals (SDGs) through our purpose and strategy, targets, policies, initiatives, innovations, and partnerships. We are committed to developing solutions, together with our stakeholders, that solve the societal challenges laid out in the SDGs, while also generating new business opportunities. In particular, we play a vital role in driving the decarbonisation of the energy and marine sectors. We have reviewed all the SDGs and their targets and have identified priority targets for our company. These are most notably SDG3 Good Health and Well-being, SDG7 Affordable and Clean Energy, SDG8 Decent Work and Economic Growth, and SDG9 Industry, Innovation and Infrastructure. More information about our contribution to these SDG themes can be

found in the following sections: [Responsible Business Conduct](#), [Climate Change and Environment](#), [Occupational Health and Safety](#), and [People and Culture](#).



We also participate in several voluntary initiatives, agreements, and commitments such as the Finnish Energy Efficiency Agreement, and sustainable business coalitions such as the [ZEEDS initiative](#) and [Getting to Zero Coalition](#).

More information on our sustainability work is also described in the following sections: [CEO review](#), [Strategy](#) and [The Year 2021](#).

"We are committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment, and anti-corruption."

Håkan Agnevall, President & CEO

SUSTAINABILITY TARGETS

TOWARDS CARBON NEUTRALITY

OWN OPERATIONS

TARGET

To become carbon neutral in own operations. Schedule: 2030

DEVELOPMENT

The Wärtsilä 'Set for 30' commitment was published in October 2021. It includes the carbon neutrality goal, which is based on a company-initiated analysis that identified the key measures for reaching the goal. The toolbox includes measures such as energy savings, green electricity purchases, switching fuels, the use of more efficient technologies, and the use of offsets for emissions hard to abate. A detailed implementation plan and timeline is currently being worked on.

TARGET

100% renewable generated electricity purchases in Finland (relating to the Smart Technology Hub, STH). Schedule: 2022

DEVELOPMENT

In 2021, alternatives for purchasing green electricity were identified, and appropriate solutions were selected.

TARGET

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

DEVELOPMENT

By the end of 2021, energy savings of 8.7 GWh were achieved, representing 29.2% of the final 2025 target.

PRODUCTS AND SOLUTIONS

TARGET

To provide a product portfolio that will be ready for zero carbon fuels. Schedule: 2030

DEVELOPMENT

This target is part of the 'Set for 30' commitment published in October 2021. Work towards the target has already started with ammonia and hydrogen testing, and the next steps are under development.

TARGET

Hydrogen Proof of Concept testing – Finalise the first phase of testing with a demo on pure hydrogen. Schedule: 2021

DEVELOPMENT

The first phase tests in pure hydrogen operation were completed successfully on a single cylinder engine (SCE).

TARGET

Ammonia Proof of Concept testing – Finalise the first phase of testing with a demo on pure ammonia. Schedule: 2021

DEVELOPMENT

The first phase testing with a test engine was successfully finalised using an ammonia/LFO blend content of up to 70%/30% and at a 75% engine load. The first tests on pure ammonia will be conducted in Q1 2022.

TARGET

Next DF pilot installation – Reduce methane slip by more than 50%, leading to greenhouse gas emission reductions of 10% from the current Best Available Technology (BAT) level. Schedule: 2022

DEVELOPMENT

In 2021, Wärtsilä proceeded with the laboratory testing and validation of a new combustion concept, which includes advanced closed loop combustion control, for our dual fuel (DF) engines. The concept achieves a 50% reduction in the amount of unburned fuel in the exhaust gas (methane slip) compared to today's technology, whilst also improving efficiency and load taking capability at part load. The new technology will become available for all latest generation DF engines, including the W31, W46TS and W25. The next and final step of the validation process will be field validation of the W31DF engine installed on the M/S Aurora Botnia.

TARGET

Complete the first power-to-X and X-to-power demonstrator project. Schedule: 2023

DEVELOPMENT

A pre-engineering contract for a project with Vantaan Energia was signed and the project is under execution.

TARGET

Enable greater deployment of renewables with an energy storage project capacity totalling 1,000 MWh. Schedule: 2022

DEVELOPMENT

In 2021, the deployed energy storage project capacity totalled 205 MWh, while the order intake was in excess of 3,000 MWh.

ENHANCING SAFETY, WELLBEING AND DIVERSITY

ENHANCING SAFETY

TARGET

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

DEVELOPMENT

In 2021, the corporate lost-time injury frequency rate (LTIF) was 1.55. This was below the annual target of 1.60, representing a 23% improvement over 2020 (2.03).

During the year, implementation of the Xcel Safety 2022 programme progressed, including continuation of the front-line Champions in Safety training programme and initiation of the equivalent training for Wärtsilä leaders. In addition, the Safehands campaign was delivered resulting in a 50% reduction in hand injuries compared to 2020. The theme of Safety Day 2021 was Every Step Matters, which highlighted the importance of avoiding slips, trips, and falls.

Wärtsilä recorded a remarkable increase in the reporting of preventive safety measures, while the number of management safety walks increased by 44%, and near miss/hazard reporting by 3% compared to 2020.

TARGET

Establish a contractor EHS (environmental, health & safety) compliance programme including requirements, implementation, consultation, auditing, measuring, target setting, and reporting. Schedule: 2022

DEVELOPMENT

Contractor EHS was a focus area within the management system audit during 2021. A cross-business project team was formed to co-ordinate the development and initiation of the contractor EHS compliance programme.

TARGET

Implement an enhanced safety philosophy at the Smart Technology Hub. Schedule: 2022

DEVELOPMENT

The new facilities are designed to support an optimal flow of materials and safe operations at all times. The production automation level has been increased in all areas, and safety was improved by minimising the manual handling of components. The new testing facilities are planned with improvements from an occupational safety, chemical, and fire safety point of view, and will be equipped and taken into use during 2022.

To enable an enhanced safety mindset, the focus has been put on training and the induction of personnel moving to the Smart Technology Hub. The 100% Safety concept is being implemented – we focus on doing work safely all the time and learn from safety success. The leaders' commitment to this is emphasised by increased safety communication during meetings and safety walks.

To further improve the adoption of the new safety concept, increased attention will be given to the visualisation of safety in the new facilities.



ENHANCING SAFETY, WELLBEING AND DIVERSITY

WELLBEING AND DIVERSITY

TARGET

Achieve an employee engagement index above 80%. Schedule: 2023

DEVELOPMENT

The latest Wärtsilä global engagement survey, MyVoice, was conducted in October 2020 with an employee engagement index score of 72.7%. The next global engagement survey is scheduled during 2022.

TARGET

Personnel development – reach 100% Development Discussion completion rate. Schedule: 2023

DEVELOPMENT

By the end of 2021, altogether 91% of the company's employees had completed development discussions.

TARGET

Diversity – increase the share of females in the workforce to 20%. Schedule: 2023

DEVELOPMENT

In 2021, the share of female employees was 17.4%.

TARGET

Reach equal pay for males and females as specified (100%). Schedule: 2023

DEVELOPMENT

During 2021, we achieved 100% equal pay for males and females*.

*Based on active employees, converted into 1FTE (full-time equivalent, 100% working time), excluding trainees and top management.

AN ACTIVE AND RESPONSIBLE MEMBER OF SOCIETY

TARGET

Achieve a Code of Conduct training coverage of 100% to ensure commitment to the Code of Conduct throughout the organisation. Schedule: 2022

DEVELOPMENT

As at the end of 2021, the Code of Conduct training coverage was 94% of all employees.

TARGET

Prepare new content for the ethical discussions programme. Schedule: 2022

DEVELOPMENT

The planning of a new programme started during 2021 with the identification of new themes.

TARGET

Launch of an enhanced anti-corruption training programme. Schedule: 2022

DEVELOPMENT

In 2021, the anti-corruption policy was reviewed. The enhanced training programme will be planned and launched during 2022.



RESPONSIBLE BUSINESS CONDUCT

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Our employees represent approximately 130 nationalities in more than 70 countries, and we have delivered solutions to 180 countries. As a truly international company, and having employees from different cultures all over the world, common values and ethical principles help us in setting a consistent approach for responsible business conduct. Since we also support our solutions globally during their entire lifecycle, often spanning up to 30 years, we can at times be present in countries facing various uprisings, ethnic conflicts, area disputes, or violations of human rights. This emphasises the importance of our responsible business practices.

VALUES AND CODE OF CONDUCT PROGRAMME

We take an active approach to applying our [Code of Conduct](#), and promoting its implementation through effective communication, training programmes, and processes. Our Values and Code of Conduct programme includes various actions aimed at strengthening the ethical culture of our company. These include the signing of an individual Code of Conduct Undertaking letter, an e-learning programme, and Values and Code of Conduct discussions, which are aimed at creating common understanding and strengthening the values and principles of the Wärtsilä Code of Conduct. In 2021, we launched a renewed Code of Conduct e-learning programme, which provides information about the Code and its themes, in addition to guidance for employees to make the right decisions in their everyday work. Employees are required to renew the mandatory training every second year. At the end of 2021, 94% of Wärtsilä's employees had successfully completed the Code of Conduct e-learning. In 2022, we also plan to prepare new content for the ethical discussions programme as stated in our [sustainability targets](#).

RESPECTING HUMAN AND LABOUR RIGHTS

Wärtsilä supports and respects internationally recognised human rights as outlined in the International Bill of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, and the United Nations Guiding Principles on Business and Human Rights. We also support the Ten Principles of the UN Global Compact, of which six principles are related to Human and Labour rights. We work to ensure that there is freedom of association and the right to collective bargaining in the company. In those countries where local legislation does not recognise these rights, employees are offered other channels for expressing their opinions.

Our Code of Conduct and [Policy on human rights, equal opportunities, and fair employment practices](#) define common rules and provide guidance for all employees on respecting human and labour rights and fair employment practices. Human and Labour rights are also included as part of the [Wärtsilä Supplier Handbook](#). Additionally, human rights considerations

IMPLEMENTATION OF THE CODE OF CONDUCT

Code of Conduct

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

Policies

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

Communication, training and processes

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

and international best practices are incorporated within various guidelines, such as the [Quality, Environmental, Health and Safety Policy](#), which sets priorities for enhancing health and safety in our business operations. Human rights are included in the mandatory Wärtsilä Code of Conduct e-learning for all employees. In addition, separate training sessions are arranged on an organisational level and mitigation actions are taken to minimise negative human rights impacts both in our own operations and in our supply management practices.

Human rights themes of particular importance to Wärtsilä are health and safety, and fair labour practices, which includes fair employment conditions, freedom of association, non-discrimination, and non-harassment. One challenge to our operations is the nature of maintenance operations carried out by our service personnel, which can require long working hours in the case of, for example, power block-outs. More information about our health and safety and other human rights related actions are presented in the [Occupational Health and Safety](#), [People and culture](#), and [Social data](#) sections.

PREVENTING CORRUPTION AND BRIBERY

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

In 2021, Wärtsilä conducted an external review to identify and assess our most significant anti-corruption risks and to review our current anti-corruption programme and its processes. Anti-Corruption risk assessments are done regularly as part of our continuous anti-corruption improvement efforts. We also maintain an extensive training programme mandatory for all employees on anti-corruption principles and applicable legislation, as well as the relevant company policies and procedures. As at the end of 2021, 88% of Wärtsilä's employees had successfully completed the Anti-Corruption training. Separate anti-corruption and anti-bribery trainings and awareness raising actions are also organised on a local level.

POLITICAL LOBBYING

Wärtsilä's policy is to engage in an open dialogue and discussion with both local and international public authorities and officials. The aim of the dialogue is to share information and improve the quality of regulation. We participate in public consultations in those areas of importance to the company and are registered in the Transparency Register of the European Commission. In 2021, topical political lobbying themes for Wärtsilä were the EU Fit for 55 legislation package and decarbonisation, EU taxonomy for sustainable activities, energy market systems, alternative fuels and infrastructure, and the optimisation of shipping operations.

COMPETITION REGULATION

Wärtsilä has in place a competition compliance programme for managing risks relating to competition law, and our management is strongly committed to implementing this programme. The cornerstone of the programme is a competition law policy, which is kept up-to date, providing information on competition rules and guidelines for our personnel. The competition compliance programme builds upon an e-learning module, based on competition law policy. In addition, competition compliance training sessions were held in 2021 for relevant personnel in order to promote understanding of competition laws and their compliance requirements.

REPORTING MISCONDUCT

Wärtsilä employees are encouraged to voice their concerns relating to any potential violations of the Code of Conduct and its underlying policies and instructions. The reported misconduct cases are investigated either locally or centrally, as appropriate. The primary means for reporting suspected misconduct incidents is via the line management. However, employees also have alternative reporting routes, including an externally hosted whistleblowing channel available in 16 languages, reporting directly to the compliance function, or by informing legal affairs. If a suspected violation involves the top management of Wärtsilä Corporation, or where the suspected case is believed to be significant, the Audit Committee of the Board of Directors of Wärtsilä Corporation can be contacted directly.

Employees who report a potential Code of Conduct violation in good faith will not suffer harassment, retaliation, or adverse employment consequences. In all cases, our employees can seek advice on ethical and lawful behaviour and on matters of integrity from Wärtsilä legal counsels or from the compliance function. In 2021, a total of 105 reports of suspected misconduct incidents were made. All reported incidents were investigated and appropriate corrective actions were taken. Where deemed necessary, this was followed by developing existing processes and instructions, and by providing training for employees.





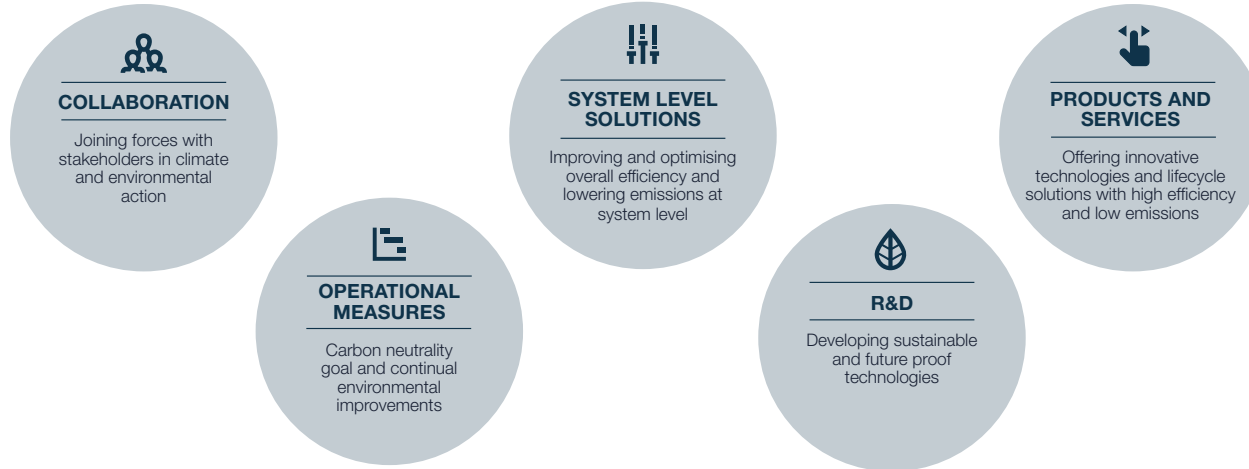
CLIMATE CHANGE AND ENVIRONMENT

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Our aim is to support our marine and energy sector customers on their decarbonisation journey. We continuously invest in sustainable innovation and product development to deliver digital solutions and innovative technologies. Furthermore, we also do our part as an organisation to minimise our own environmental footprint. In 2021, we announced our commitment to ambitious climate targets. By 2030, our goal is to become carbon neutral in our own operations and to provide a product portfolio ready for zero carbon fuels. These new targets demonstrate our commitment to a sustainable future.

Wärtsilä's climate and environmental actions



fuels can be used already today, and we are developing our portfolio further so that zero carbon fuels can be used before 2030.

Our revised sustainability ambitions include [targets](#) for our product development. In addition to a product portfolio ready for zero carbon fuels, our sustainability targets are related to reducing methane slip, a power-to-X and X-to-power demonstrator project, and increasing our energy storage project capacity.

Innovations and partnerships in 2021

In 2021, Wärtsilä continued pioneering the adoption of [sustainable fuels](#) with encouraging results when testing hydrogen, ammonia, and methanol as viable engine fuels. We anticipate having an engine concept operating with pure ammonia fuel in 2023. We also 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. Furthermore, an [upgraded version of the 20DF dual-fuel engine](#) was introduced. It can now deliver more power with less energy consumption, and its methane slip is lowered by as much as 40%. Moreover, we 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.

During the year, we also joined forces with leading companies and other organisations to put our purpose and strategic goals into action. These partnerships aim to enhance new research and cooperation on innovative sustainable solutions, improve efficiency, and accelerate the decarbonisation of shipping and the development of clean fuels.

Decarbonising marine

- Wärtsilä, as part of a consortium led by the University of Vaasa in Finland, announced participation in an EU-funded project CHEK – deCarbonising sHipping by Enabling Key technology. The project aims to [decarbonise long distance shipping](#) through the integrated use of low-carbon energy forms and technologies. These include the use of hydrogen fuel, wind

INNOVATING FOR SUSTAINABILITY

R&D and innovation

Our product portfolio includes technologies related to efficiency improvement, fuel flexibility, the reduction of gaseous and liquid emissions, waste treatment, noise abatement, hybrid and energy storage systems, as well as effluent and ballast water treatment. Our proactive approach to meeting future demand has resulted in the development of both primary and secondary abatement technologies and has broadened the range of usable fuels. With the help of intelligent digital solutions and services, data can be collected, analysed, monitored and reported, allowing us to optimise operations and reduce emissions.

Our environmental solutions and services include the following features:

- Low emission and noise levels
- High efficiency
- Digital intelligence
- System level optimisation
- Compliance with environmental regulations

- Fuel flexibility
- Renewable energy integration with engines and storage systems
- Dynamic capabilities
- Low water consumption
- Lifecycle support and optimisation
- Reliability, safety, and a long lifespan

As our products have a long operational life, identifying the lifecycle impacts of our products is essential for understanding their total environmental impact. We manage the lifecycle of our products through their design, the careful selection of suppliers, production methods, and by optimising transportation, maintenance, and repairs during their operational life. The reconditioning of products and components increases their reliable service life, while modernising improves the existing operational performance of installations.

Decarbonisation is a priority in our product and product portfolio development, including abatement technologies. Carbon neutral

power, electric batteries, heat recovery, air lubrication, and new anti-fouling technology.

- Wärtsilä announced its participation in a consortium of Finnish research organisations and leading companies researching means for developing radical new solutions for [clean and efficient marine and off-road transport](#).
- Wärtsilä joined an international alliance, headed by the Port of Rotterdam Authority, in an EU-funded project to develop an autonomous, [zero emissions barge](#) for the Port of Rotterdam.
- Wärtsilä contributed to the preparation of, and will further support, the partnership between the EU and the Waterborne Transportation Platform. The aim of the partnership is to demonstrate [zero-emission solutions](#) for all main ship types and services before 2030, which will enable zero-emissions waterborne transport before 2050.
- Wärtsilä Voyage and Japan based Weathernews Inc (WNI), the world's largest private weather routing provider, signed a strategic partnership agreement to enable the integration of WNI's weather forecasting data and Optimum Ship Routing (OSR) service with Wärtsilä's products and solutions, thereby increasing navigational safety while [supporting the decarbonisation efforts of ship owners and operators](#).
- Wärtsilä signed a Memorandum of Understanding (MOU) with Global Energy Ventures (GEV) of Australia, a company specialised in delivering compressed shipping solutions for transporting energy to regional markets. The two companies will cooperate on the inclusion of Wärtsilä propulsion systems in GEV's compressed [hydrogen \(C-H2\) ships](#).
- Wärtsilä announced participation, as one of the leading partners, in the LINCCS (linking carbon capture and storage) project. One of the major work-streams of the project is to bring to market a [maritime carbon capture & storage \(CCS\) solution](#).
- 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](#) available for future newbuild projects.
- Wärtsilä and Norwegian ship owner Eidesvik Offshore ASA signed a landmark cooperation agreement aimed at converting an [offshore supply vessel \(OSV\) to operate with an ammonia-](#)

[fuelled combustion engine](#) 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.

- Wärtsilä Exhaust Treatment and Solvang ASA, a Norwegian shipping company, agreed on a [full-scale pilot retrofit installation of a carbon capture and storage \(CCS\) system](#) on one of Solvang's ethylene carriers.
- Wärtsilä and Norway based Simon Møkster Shipping signed a collaboration agreement to carry out a feasibility study on utilising [ammonia as the main fuel in dual-fuel engines](#) where LNG is the alternative fuel.
- Wärtsilä Voyage signed a strategic partnership with the Maritime and Port Authority of Singapore (MPA) with the aim of identifying synergies between Wärtsilä's Navi-Port solution and MPA's maritime digital platforms and shipboard systems to co-develop next-generation [safer and greener smart port solutions](#).
- Wärtsilä, together with class society RINA, ABB, Helbio - a subsidiary of Metacon AB, the Liberian Registry, and an energy major joined forces in an effort to deliver a viable [hydrogen fuel solution](#) to meet the IMO 2050 emissions reduction target.
- Wärtsilä launched a world-class research, development and innovation project to promote [Zero Emissions Marine](#) together with nearly 200 operators. Business Finland granted the project EUR 20 million in funding for the challenge competition for leading companies.

Decarbonising energy

- Wärtsilä signed a letter of intent with the energy companies Vaasan Sähkö and EPV Energia, and with the City of Vaasa to cooperate in a project aimed at utilising [emission-free hydrogen](#) in power production, industry, and traffic applications. The goal is to jointly build a Power-to-X-to-Power system in Vaasa, and to pilot a hydrogen-based energy generation solution suitable for export markets.
- Wärtsilä and Huaneng Jiangsu Co, the provincial subsidiary of China Huaneng Group Co., Ltd and one of China's largest state-owned power generation companies, signed a Strategic

Cooperation Framework Agreement (Cooperation Agreement) to jointly work towards the [development of sustainable power generation](#) in Jiangsu, China. The aim of the Cooperation Agreement is to develop more sustainable and flexible power generation based on internal combustion engine (ICE) technology to enable the integration of more renewable resources into the Jiangsu grid.

- Wärtsilä and Finnish utility, Vantaa Energy Ltd, signed a cooperation agreement for the pre-engineering and development of a [Power-to-Gas \(P2G\) plant](#) for Vantaa Energy. The plant, scheduled to be commissioned in 2025 and with a fuel capacity of 10 MW, would be the largest in Finland and also the first to produce carbon-neutral, synthetic methane on a commercial scale.
- 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, and by leveraging microgrids and enabling the use of renewable energy sources.

ENVIRONMENTAL MANAGEMENT AND TARGETING CARBON NEUTRALITY IN OUR OWN OPERATIONS

Striving for continual improvement

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

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

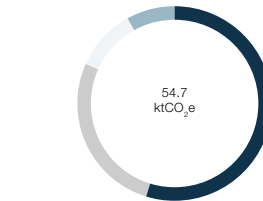
Our EHS management system emphasises compliance with legal requirements, identifying and reducing environmental impacts and risks, training personnel and clearly defining their responsibilities, the full documentation of activities and procedures, actions to be taken in emergencies, and the continuous improvement of environmental performance. Our subsidiaries and business units set their own targets for covering the significant environmental aspects of their operations, and for monitoring the overall performance of their management systems. At the end of 2021, 55 Wärtsilä companies operated with a certified environmental management system. These certified environmental management systems cover roughly 87% of our total workforce.

Carbon neutrality

In spring 2021, we conducted a decarbonisation study among all Wärtsilä companies. In this study we mapped the current situation of our carbon footprint and the emissions reduction potential for Wärtsilä, acknowledging the feasibility and cost impact of various measures. This study created the foundation for our carbon neutrality commitment also known as ‘Set for 30’.

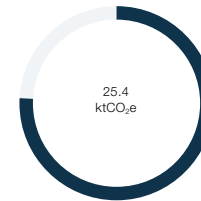
The study focused mainly on our own emissions (Scope 1) and emissions from purchased electricity, heat, and cooling (Scope 2). Due to the impacts of the pandemic in 2020, the year 2019 was selected as the baseline year for the study.

Scope 1 emissions










- Factory engine testing 55%
- R&D testing 27%
- Heating 10%
- Vehicles 8%

Scope 2 emissions



- Purchased electricity 76%
- Purchased heat 24%

The main emission reduction categories in our decarbonisation pathway are:

-  Energy efficiency and energy savings
-  Switching to low emission company vehicles
-  Utilisation of self-generated energy and the purchase of green electricity
-  Reducing the time of R&D and factory engine testing
-  Utilisation of heat pumps in heating
-  Replacing fossil fuels with alternative fuels in factory and R&D engine testing
-  Utilisation of various technologies to reduce the greenhouse gas (GHG) emissions in our engine testing.

The ‘Set for 30’ commitment will be supplemented by a Wärtsilä decarbonisation programme, which will be executed in phases. Each programme phase is expected to last approximately three years, and during each phase the execution of identified actions, as well as a detailed assessment of the next phase, will be carried out.

Find more: Information and figures about our operational performance in the [Environment Data section](#).

“Reaching zero emissions in our operations is extremely difficult. Many aspects have an impact on our carbon footprint, such as how we operate daily, as well as how our production, testing volumes, and Group structure develops. Nevertheless, our ‘Set for 30’ ambition is clear – we need to be carbon neutral by 2030.”

Marko Vainikka, Vice President, Corporate Relations and Sustainability



PEOPLE AND CULTURE

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



Wärtsilä's People Strategy helps the company and its businesses to achieve their business goals and ambitions by translating our [strategy](#), The Wärtsilä Way, into people priorities. These priorities are aimed at ensuring that HR, together with the Businesses, have the workforce effectiveness capable of developing our organisation and its competences to reach our targets and bring our purpose to life. We intend to provide value to our customers and stakeholders by putting people at the heart of everything we do. The People Strategy's key focus areas for the next 5+ years are:

Creating an inclusive culture that drives performance – In order to create a culture that supports Wärtsilä's Purpose and Values, we build diverse teams collaborating cross-organisationally to actively shape our ways of working and mindset. We embrace trust, wellbeing, and work-life balance as prerequisites to achieving sustainable performance. We aspire to create an equal, open, healthy and inspiring work environment where everyone can perform to the best of their abilities.

Fostering a learning organisation with a strong growth mindset – Continuous learning, competence development and growth, as well as the continuous evolvement of the organisation strengthens

our competitive advantage. We believe that improved business performance is strongly supported by learning, and are committed to developing both the business and the skills of our people. In shaping decarbonisation of the Marine and Energy sectors, we are building strategic capabilities and learning portfolios. Our leaders reinforce learning and empower everyone to take responsibility for their own growth and development.

Building leadership for impact – We develop leaders committed to fulfilling the strategy’s aims, and who are equipped to drive team and individual performance. We emphasise excellence and continuous improvement throughout the organisation, with everyone empowered and aware that their contribution is important to The Wärtsilä Way. We expect our people to be proactive, accountable, and able to deliver on commitments and support our leaders in building an engaged organisation. This includes quality in the setting of targets, proper and regular feedback, the evaluation of overall performance, and recognition of outstanding performance.

Matching the right talent to the right roles at the right time – The goal is for Wärtsilä to be an attractive employer for current and future employees, and to ensure that Wärtsilä has people with the required skills and motivation. The holistic approach is to attract, engage, develop, and retain talent to achieve the best possible business impact. Value creation is fostered through identifying key roles and developing competences and behaviours. We continuously encourage company-wide dialogue and transparency on talent, mitigate risks, and secure business continuity by developing people for critical positions and placing the right talent in the right roles.

2021 – PEOPLE’S HEALTH, SAFETY AND WELLBEING REMAINED TOP OF THE AGENDA

With the Covid-19 pandemic continuing throughout 2021, the focus remained on securing the health, safety, and wellbeing of the Wärtsilä people and their families whilst honouring customer commitments and maintaining business operations. The global Crisis Response Team (CRT), together with local country Incident

Management Teams (IMT) operating cross-functionally from HR, EHSS, risk management, quality, communications and business domains, ensured that appropriate safety procedures, precautionary measures, and proactive communications were established. Covid-19 has showed that Wärtsilä’s people can quickly adapt to virtual ways of working. At the same time, meeting and collaborating in person is important for business, innovation, building our culture, and for fostering wellbeing. Wärtsilä supports teamwork within a flexible hybrid working model where we believe it helps achieve Wärtsilä’s strategic targets and business objectives. During 2021, our policies were revisited locally to bring more flexibility, and to formalise remote working possibilities, taking into account local country legislation, as well as function and activity related requirements.

WELLBEING AS A PREREQUISITE TO ACHIEVING SUSTAINABLE PERFORMANCE

Wärtsilä believes in providing a healthy working environment that supports growth, wellbeing, and work-life balance. Our global wellbeing strategy is based on five holistic pillars: Mental & Intellectual, Physical & Nutrition, Social, Emotional, and Balance & Rest. The goal is to improve our status in all these areas through effective leadership, organisational means, designated programmes and activities, and a wellbeing focused culture, so that people feel safe and cared for. In addition to maintaining the

content of our global Wellbeing Hub, as well as linking to local country-level initiatives, we have increased the emphasis on wellbeing throughout the company, for instance by establishing Wellbeing Wednesdays. We have also formed a diverse global Wellbeing Committee consisting of approximately 50 skilled and committed individuals from across businesses and geographies working on tangible activities for each of the pillars during 2022.

A CULTURE THAT SUPPORTS OUR RENEWED PURPOSE AND VALUES

Wärtsilä’s Purpose was renewed in 2021 and new Values were defined in line with our Strategy. Our Purpose guides all our activities, and the company’s values of “Customer Success, Passion, and Performance” shape our day-to-day behaviours and interactions.

The annual Wärtsilä Leaders’ Forum was conducted virtually in September 2021, with the launch of The Wärtsilä Way, our new strategy, being the key theme on the agenda. 80 senior leaders attended the launch. Following the Leaders’ Forum, we engaged our employees in a dialogue on The Wärtsilä Way, our Purpose, and our Values. The next step is to follow up on the progress during the upcoming myVoice global engagement survey for all employees during 2022.

WÄRTSILÄ WELLBEING FRAMEWORK – OUR FIVE PILLARS

 <p>MENTAL & INTELLECTUAL</p> <p>Encouraging an active and open mind.</p>	 <p>PHYSICAL & NUTRITION</p> <p>Developing healthy habits and lifestyle.</p>	 <p>SOCIAL</p> <p>Fostering inclusion and a sense of belonging.</p>	 <p>EMOTIONAL</p> <p>Possessing the ability to express emotional needs and feelings and sharing those when required.</p>	 <p>BALANCE & REST</p> <p>Having the right balance in energy, endurance and flexibility.</p>
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DIVERSITY AND INCLUSION

At Wärtsilä we value, respect and embrace diversity, and are committed to equal employment opportunities; everyone can be their true self and succeed according to their job-relevant merits and abilities.

We pride ourselves on having a diverse representation of nationalities and cultures at all levels, departments, and functions of the organisation. Currently, our staff is comprised of about 130 different cultures and nationalities. Diversity and inclusion are not derived from words of encouragement – they need to be supported by actions. Wärtsilä has created a variety of actions and tools, ranging from recognising unconscious bias and prejudice, to learning from the diverse cultures of our people.

Equally important to honouring the nationalities and cultural backgrounds of our colleagues is having gender diversity. Genders other than men are globally underrepresented in workforces, most especially in leadership positions. At Wärtsilä, we are particularly committed to increasing the share of female employees. Wärtsilä's efforts to increase the gender balance have been acknowledged beyond the company borders. In early 2021, Wärtsilä's [diversity performance](#) was placed ahead of all Large Cap companies in Finland, Sweden and Denmark, according to the Nordic Business Diversity Index. Furthermore, the technology and economy-focused magazine *Talouselämä* recently highlighted Tamara de Gruyter, our Head of Marine Systems, as one of the most influential women in leadership positions in Finnish companies. Her leadership in a generally male-dominated technology company has now been recognized for the second year in a row.

TALENT MANAGEMENT FOR THE WÄRTSILÄ WAY

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

During 2021, Wärtsilä set up a new talent management process that is aligned to The Wärtsilä Way and Values. The aim is to increase company-wide talent mobility, reduce business risk, and increase business value by staffing the right people in the right roles. This is supported by an increased focus on the development of our talent and fostering cross-organisational talent dialogues.

LEADERSHIP FOR IMPACT

Wärtsilä develops leaders that are committed to fulfilling the strategy's aims, equipped to drive team and individual performance, and who inspire our people to succeed. The focus of Wärtsilä Leadership Development in 2021 was on building a solid foundation for leadership impact and effectiveness. We have renewed and digitalised our development offering based on 70/20/10 learning principles. During 2021, approximately 400 leaders enrolled for the new 'Wärtsilä Leader' learning programme, which will be scaled during 2022 to eventually cover all line managers. More than 1,000 visits were made to the newly launched Wärtsilä Leader community site where an engagement toolkit on The Wärtsilä Way and our renewed Values are found, as are a collection of 'Best Leadership Practices', and digital content created for self-study purposes. Topics covered include, for example, the Role of a Leader, Team development, Change leadership, Feedback, and Challenging situations. Hundreds of Wärtsilä people have completed these self-paced learning sessions. The Wärtsilä coaching framework is used in internal coaching interventions and awareness building. The Wärtsilä coach practitioner community started with 50+ members, and will be scaled further during 2022.

PERFORMANCE EXCELLENCE

Achieving better performance through smart target setting, together with continuous feedback, are central pillars of performance excellence. In 2021 performance excellence was further developed throughout the organisation. A well-executed performance management process supports the reaching of business targets by translating business strategies into team and individual objectives. Each Wärtsilä employee needs to know and understand these strategies and their goals. More importantly, everyone needs

to be aware of the main targets set for their own units, and the target areas related to their own work. Greater attention has been given to the quality and impact of the process by emphasising the importance of continuous feedback, clarifying expected behaviours, and creating opportunities for both professional and personal growth. Each employee receives performance feedback, and an evaluation based on their overall job performance, as well as a personal development plan for the future. Overall performance evaluation is one of the considerations in compensation decisions, and is in line with the principle of performance-based rewarding. Good coverage of the annual development discussions continued globally during the 2020-2021 cycle, with 91% completions. In preparation for the 2021-2022 cycle, 81% of our Line Managers were engaged in interactive sessions to strengthen their capability in holding effective development dialogues with their teams.

FOSTERING A LEARNING ORGANISATION

Learning on the job, self-learning, mentoring, coaching, and job rotation are integral to the development of knowledge and competence within the company. Whilst employees are given formal classroom learning opportunities at all organisational levels, from induction for new employees to learning programmes for the company's top executives, virtual and informal learning opportunities are of growing importance, and are in line with the 70/20/10 learning principles. Wärtsilä employees attended a total of 18,739 formal learning days during 2021. To encourage the increasing need for social learning, a formal mentoring framework was launched and scaled during 2021 through dedicated business-led programmes. 230 persons from across businesses participated.



OCCUPATIONAL HEALTH AND SAFETY

CONTRIBUTING TO THE FOLLOWING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



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

OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

Wärtsilä's occupational health and safety principles are defined in the company's [Code of Conduct, Quality, Environmental, Health and Safety \(QEHS\) Policy](#), and in the directive on environment, health, and safety (EHS). Wärtsilä's subsidiaries are required to have a management system in place that conforms to both the QEHS Policy and the EHS directive. The main aspects of the management system relate to compliance with legislation, identifying and minimising occupational health and safety risks, personnel training, implementing effective health and safety programmes and instructions, recording and investigating occurred incidents, emergency response, and the continual improvement of occupational health and safety performance. At the end of 2021, 59 Wärtsilä companies, representing roughly 94% of Wärtsilä's total workforce, were operating with a certified ISO 45001 occupational health and safety management system in place.

In addition to the management system, Wärtsilä companies also apply occupational health and safety programmes as required by local legislation. These are normally developed by occupational health and safety committees made up of company management and personnel representatives. Altogether, 73% of all Wärtsilä companies currently have an occupational health and safety committee.

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

SAFETY MEASURES IN 2021

In 2021, the corporate lost-time injury frequency rate (LTIF) was 1.55. This was below the annual target of 1.60, representing a 23% improvement over 2020 (2.03). Wärtsilä recorded a remarkable increase in the reporting of preventive safety measures, while the number of management safety walks increased by 44%, and near miss/hazard reporting by 3% compared to 2020. Since 2019, Wärtsilä has been delivering 'Champions in Safety' training to our front-line employees. The objective of this interactive course is to help in understanding the impacts of incidents, acknowledging everyone's individual risk awareness and risk behaviour, as well as empowering the taking of practical actions to prevent accidents from occurring. By the end of the 2021, 7,100 employees had completed this training.

In 2021, Wärtsilä continued implementing various measures to protect our employees against Covid-19. Global and local crisis management teams were active in co-ordinating and implementing pandemic prevention and control plans. A key focus area in 2021 was on actively promoting and facilitating Covid-19 vaccinations for Wärtsilä employees.

In 2021, the lost time injury frequency for Wärtsilä employees was significantly reduced (23%). At the same time, the protection of our employees against Covid-19 remained as a high priority.

MITIGATING THE COVID-19 IMPACT CONTINUED

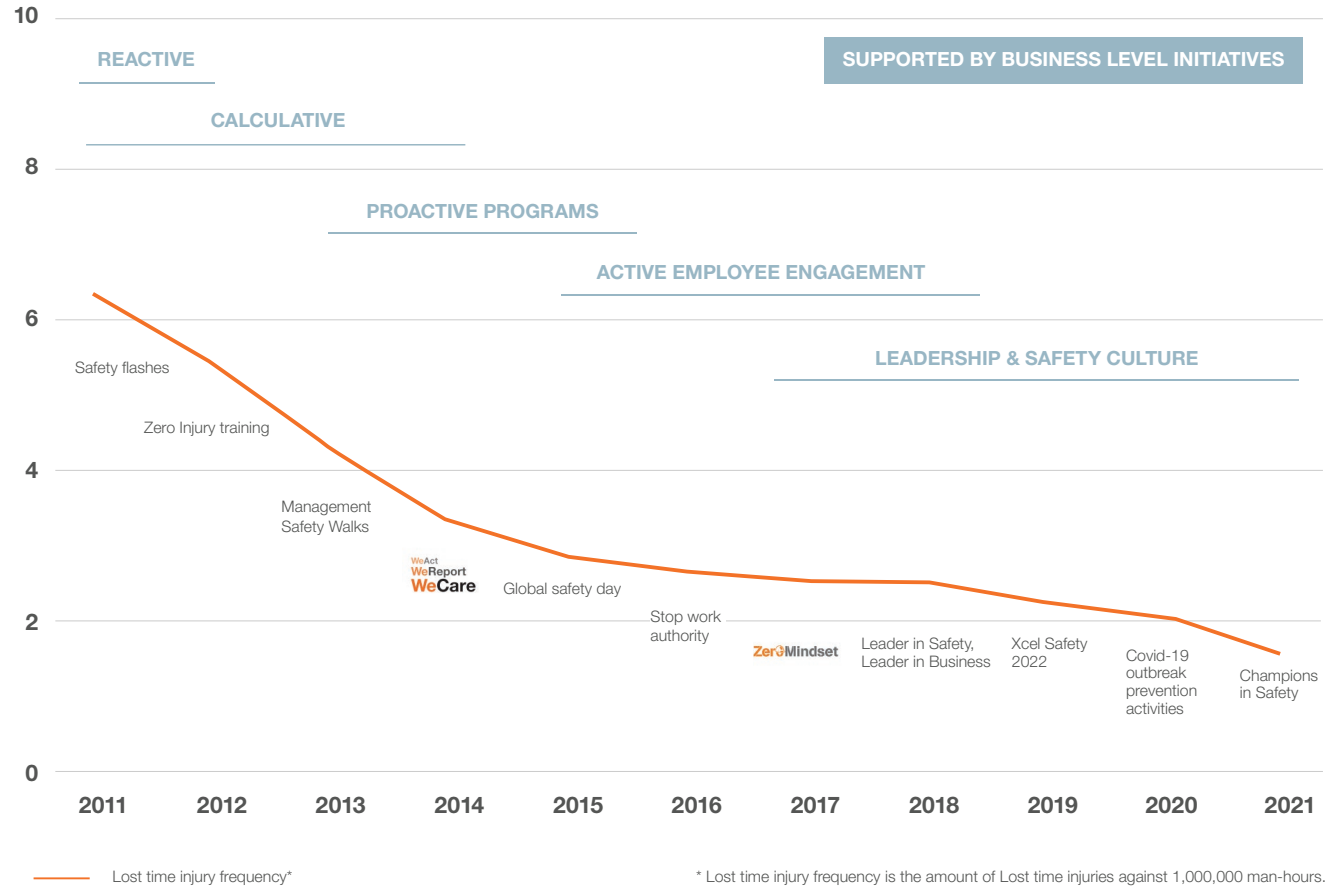
The Covid-19 pandemic remained a key focus area in our occupational health and safety operations during 2021. Employee dialogue, fact-based communication, clear instructions, and operational advisory measures were instrumental in mitigating its negative impact on our employees, global business operations, customers, and external stakeholders.

Our Covid-19 global Crisis Response Team (CRT) and local Incident Management Teams (IMT) were activated in January 2020 and continued working in 2021 to monitor the Covid-19 situation, to communicate and implement guidelines, and to robustly reinforce the health and safety measures for our 17,500 employees across 80 countries, while aligning activities with customer needs.

These actions consisted of health precautions, travel guidance, and risk assessment, insurance and legal instructions, evacuation preparedness, and medical services for travellers. Physical measures, such as social distancing, face masks, testing support and remote work, plus online and off-site meetings, allowed employees to work in the safest possible manner. To address the impact of prolonged isolation and to strengthen our physical and mental wellbeing, various initiatives, including sharing best innovative practices and new ways of working and collaborating, helped in building resilience and team-spirit. During 2021, Wärtsilä promoted and supported the roll-out of local vaccination programmes against Covid-19 through encouragement, creating opportunities, and utilising our occupational health care actors to have our personnel vaccinated in accordance with our ethos on corporate social responsibility and safety culture.

Introduced activity	Description
Safety Flashes	Safety flash reports are lessons learned from occurred injuries and near misses, and are distributed globally within the organisation.
Zero Injury Training	The global training consisted of an e-learning (4h) and a practical workshop (4h).
Management Safety Walks	A leadership tool that involves holding conversations on safety with employees.
WeCare	A global IM tool and way of working for reporting and investigating.
Global Safety Day	An annual safety celebration that takes place throughout the Wärtsilä network. The theme changes every year.
Stop work authority	The Wärtsilä QEHS policy authorises everybody to stop work in unsafe situations.
ZeroMindset	ZeroMindset is a safety programme initiated in 2015 to bring Wärtsilä towards the Zero Injury target. Since then, ZeroMindset has become a definition for Wärtsilä's safety culture and behavioural target.
Leader in Safety, Leader in Business	A leadership safety engagement training programme (1 day) for all line managers and employees who have a direct impact on front line operations.
Xcel Safety 2022	The Xcel Safety 2022 programme addresses the challenging target of cutting the Lost Time Injury Frequency by 50% by the end of 2022. The programme has new elements, such as creating safety champions, boosting safety culture, taking best practices into action, and securing safety competencies.
Covid-19 outbreak prevention activities	Activation of the global Crisis Response Team and local Incident Management Teams with the responsibility of monitoring, communicating and implementing guidelines, and preparing prevention actions and control plans.
Champions in Safety	A global safety training programme for front-line employees and managers. Front-line training began in 2019 (4h) and manager training at the end of 2021 (4h).

SAFETY EVOLUTION IN WÄRTSILÄ





SUSTAINABILITY DATA



ECONOMIC

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

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

MEUR	2021	2020	2019	2018	2017*
Customers					
Net sales	4,778	4,604	5,170	5,174	4,911
Suppliers					
Cost of goods, materials, and services purchased	3,072	3,004	3,368	3,327	3,024
Value added	1,706	1,601	1,802	1,847	1,888
Distribution of value added					
Distributed to stakeholders	1,493	1,412	1,404	1,615	1,651
Employees					
Wages and salaries	1,009	984	1,028	954	1,000
Public sector					
Taxes and social dues	324	266	329	336	331
Creditors					
Net financial items	-18	-43	-47	-40	-47
Shareholder					
Dividends	142	118	284	284	272
Communities					
Donations given	0.4	0.6	0.5	0.6	0.8
For business development	214	189	114	232	237

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

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

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

MEUR	2021	2020	2019	2018	2017*
Customers					
Net sales (MEUR)	4,778	4,604	5,170	5,174	4,911
Net sales by market area (MEUR)					
Europe	1,591	1,542	1,690	1,485	1,526
Asia	1,464	1,570	1,968	1,867	1,933
Americas	1,286	1,077	1,098	1,245	1,132
Africa	251	245	222	283	221
Other	186	170	192	294	100
Suppliers					
Cost of goods, materials, and services purchased (MEUR)	3,072	3,004	3,368	3,327	3,024
Employees					
Salaries and wages (MEUR)	1,009	984	1,028	954	1,000
Salaries and wages by market area (MEUR)					
Europe	707	688	719	643	689
Asia	136	138	145	150	156
Americas	134	131	134	134	130
Africa	21	21	22	20	18
Other	11	7	8	7	7
Net sales/employee (TEUR)	274	252	271	274	275

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

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

Financial assistance received from government (GRI 201-4)

Subsidies received (TEUR)	2021	2020	2019	2018	2017
	14,855	17,225	8,101	7,085	9,891

The value of the subsidies received in 2021 was EUR 14,855 thousand and they were among others related to R&D projects. The most contributing countries in 2021 were Norway, Finland and Italy.

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

MEUR	2021	2020	2019	2018	2017*
Public sector					
Taxes and social dues (MEUR)	324	266	329	336	331
Taxes and social costs by market area (MEUR)					
Europe	230	197	223	252	236
Asia	42	35	47	38	44
Americas	36	25	43	33	38
Africa	12	14	19	10	12
Other	3	-5	-2	4	1
Subsidies received (TEUR)	14,855	17,225	8,101	7,085	9,891
Net financial items (MEUR)	-18	-43	-47	-40	-47
Community					
Donations given, Board of Directors (TEUR)	130	130	130	110	110
Donations given, Wärtsilä companies (TEUR)	246	433	383	627	673

*Restated due to IFRS 15

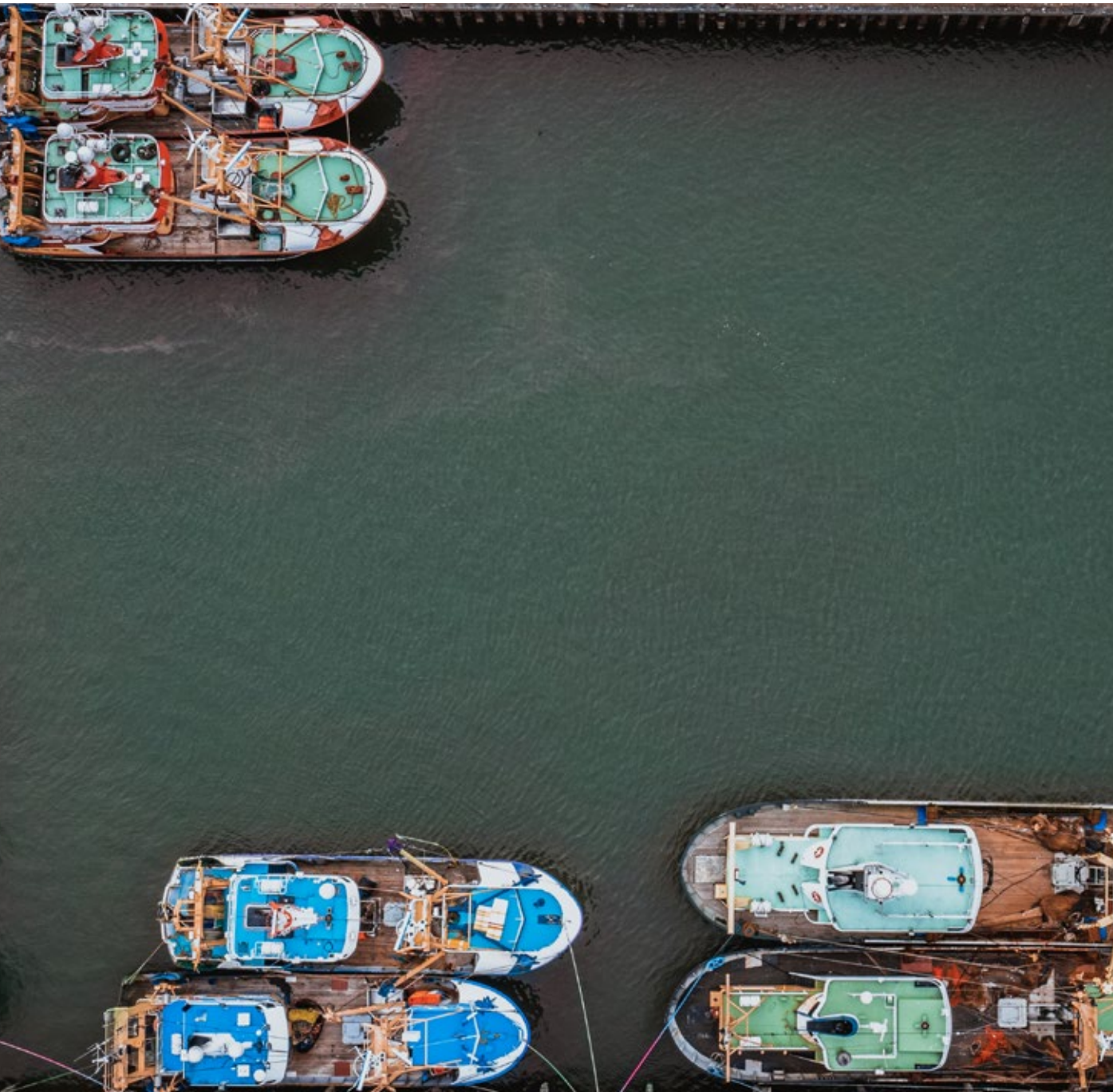
MARKET PRESENCE

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

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

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

Wärtsilä publishes all open vacancies internally, thus ensuring an equal opportunity to apply for Wärtsilä positions. If there is no specific reason to hire expatriates to the position, such as a competence transfer need from other countries, local residents are hired. This principle also applies to senior management positions. Senior management consists of global business and corporate management and local company management positions. Globally, 70% of Wärtsilä's senior management is locally hired, in other words from the same country as the Wärtsilä subsidiary is located.



ENVIRONMENT

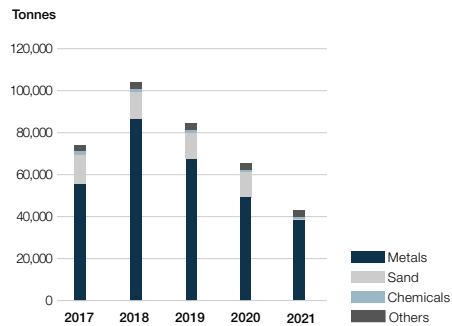
The environmental impacts of Wärtsilä's operations largely relate to manufacturing; the use of energy and natural resources, and thus also to the emissions that are produced by the manufacturing processes. In addition, product development requires the testing of products and individual components, which,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

MATERIALS

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

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys, and bronze. In 2021, the total material usage was 42,751 tons (65,216). The major material groups were various metals 89%, sand 2%, and various chemicals 1%.

Materials



Material usage (t)	2021	2020	2019	2018	2017
Metals	37,885	49,175	67,123	85,820	55,416
Sand	902	11,437	11,957	13,055	13,493
Chemicals	515	1,245	1,520	1,422	1,575
Others	3,449	3,359	3,482	3,035	3,255
Total	42,751	65,216	84,081	103,332	73,738

Recycled input materials used (GRI 301-2)

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

ENERGY

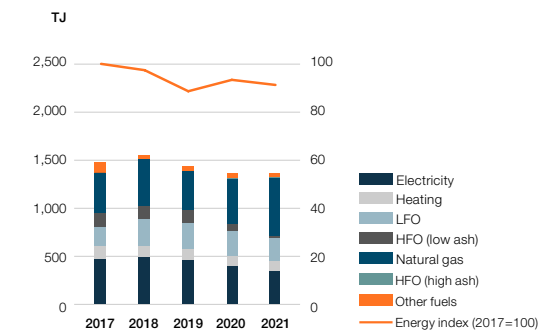
Energy consumption within the organisation (GRI 302-1)

The total energy consumption (in terajoules, TJ) includes the electricity, heat, and fuels used in Wärtsilä companies in recent years. The fuels are used mainly in engine testing, but also in heating, production, and transportation. In 2021, the fuels were from non-renewable sources.

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

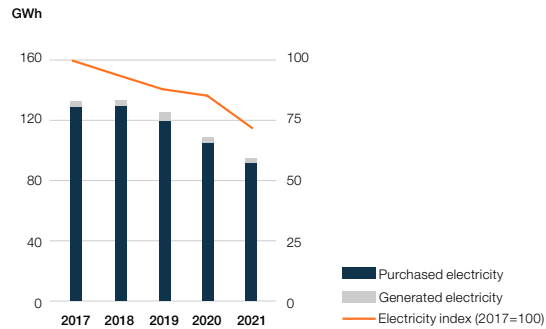
Heating for factories and offices accounts for most of Wärtsilä's consumption of heat energy. In several factories, the heat generated in engine test runs is used for heating. Some factories and offices are connected to a local district heating network, some have their own heating plant, and some use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

Annual energy consumption



Energy consumption	2021	2020	2019	2018	2017
Electricity consumption (MWh)	94,289	107,784	124,843	132,572	131,960
Purchased electricity	91,045	104,293	119,092	128,878	128,176
Generated electricity	3,244	3,491	5,751	3,694	3,784
Sold electricity (MWh)	42,924	33,543	32,812	32,019	28,066
Heating (MWh)	30,093	39,841	31,429	32,937	36,890
Heavy fuel oils (HFO) (t)	557	1,741	3,343	3,381	3,798
Light fuel oil (LFO) (t)	5,509	6,064	6,089	6,223	4,327
Natural gas (t)	11,867	8,976	8,064	9,783	8,393
Other fuels (t)	1,084	1,464	1,329	1,238	2,811
Total energy consumption (TTJ)	1,339	1,319	1,404	1,538	1,477

Annual electricity consumption



Energy	2021	2020	2019	2018	2017
Total energy consumption (TJ/ Net sales MEUR)	0.281	0.287	0.272	0.300	0.308

Energy savings (GWh)	2021	2020	2019	2018	2017
Annual	0.5	4.9	0.5	2.0	0.9
Cumulative	8.7	8.3	3.4	2.9	0.9

Reduction of energy consumption (GRI 302-4)

From the beginning of 2017, Wärtsilä set an energy saving target to reduce energy consumption by at least 7% in terms of absolute consumption (GWh) from 2015 levels by 2025. By the fifth year of the target, permanent energy savings of 8.7 GWh have been reached, mainly by reducing electricity or heat consumption.

WATER

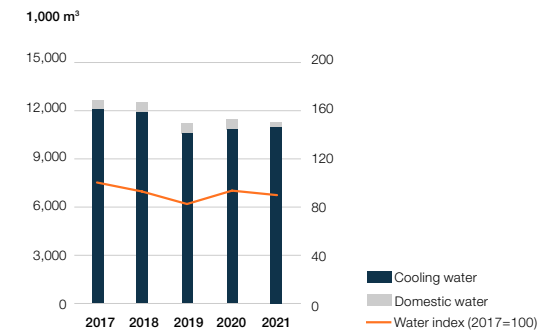
Water withdrawal (GRI 303-3, 303-5)

Wärtsilä's water consumption can be divided into two categories: domestic use and cooling use. Domestic water is mainly used for sanitary purposes and by industrial equipment, such as machine tools and washing machines. Some factories also use domestic water to produce moulds or to fill in closed-loop cooling system needs. Wärtsilä uses seawater for its engine and process cooling needs. Total annual water consumption split by the water withdrawal source: About 99% of cooling water comes from local surface watercourses, where only heat is released along with clean water, and about 1% of cooling water comes from municipal water utilities. Out of Wärtsilä's total water consumption in 2021, about 97% was seawater for cooling purposes, about 3% was from municipal water supplies, and about 0.3% was directly withdrawn groundwater or rainwater. 43,864 m³, amounting to 0,4% of all water consumption took place in high water stress areas in accordance with the WRI Aqueduct classification.

Water sources significantly affected by withdrawal of water

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

Annual water consumption



Water consumption (1,000 m ³)	2021	2020	2019	2018	2017
Domestic water	365	568	648	652	631
Cooling water	10,983	10,805	10,621	11,954	12,118
Total	11,348	11,373	11,268	12,607	12,749

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

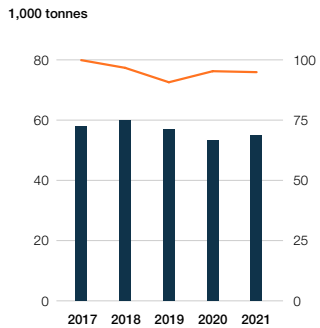
Wärtsilä Italia S.p.A. recycled 36,177 m³ of water in 2021 by running it through a water treatment plant and reusing the cleaned water in production processes. The amount corresponds to roughly 17% of Wärtsilä Italia's annual water consumption and 0.3% of Wärtsilä's total water consumption in 2021. No other major water recycling processes are in use in Wärtsilä production facilities globally.

EMISSIONS

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

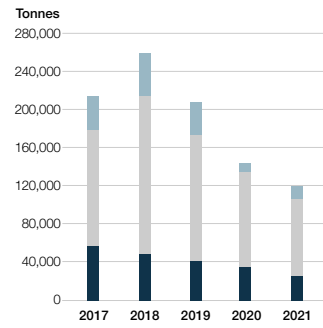
In addition to direct CO₂ emissions, Wärtsilä's operations generate indirect CO₂ emissions. In 2021, the calculated secondary CO₂ e emissions (location-based method) were 25,350 tons (34,561) (from purchased electricity and heat) and the CO₂ e emissions from flights totalled 14,080 tons (11,191). There were no biogenic CO₂ emissions in 2021.

Annual direct CO₂e emissions



■ CO₂e
— CO₂e index (2017=100)

Indirect CO₂e emissions



■ Purchased electricity and heat (Scope 2, location-based)
■ Purchased energy and materials (Scope 3)
■ Flights (Scope 3)

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

Wärtsilä has taken several measures to reduce its indirect CO₂ emissions. The energy efficiency commitment aims to reduce energy consumption and emissions. In addition, Wärtsilä's focus lies on reducing travelling by implementing a strict travel policy and by using virtual meeting concepts: Teams instant messaging, which enables live chats between two or more people, and

Emissions	2021	2020	2019	2018	2017
Emissions of nitrogen oxides (t)	371	445	544	545	534
Emissions of sulphur oxides (t)	15	47	51	55	62
Emissions of total hydrocarbons (t)	203	147	139	164	131
Particulates (t)	4	6	7	7	8
Emissions of VOC (t)	29	31	37	45	36

GHG emissions (location-based)	2021	2020	2019	2018	2017
Direct (Scope 1) (tCO ₂ e)	54,711	52,911	56,568	59,949	57,998
Indirect (Scope 2) (tCO ₂ e)	25,350	34,561	40,911	47,347	56,002
Other indirect (Scope 3) (tCO ₂ e) *	93,810	107,923	164,550	208,330	155,537
GHG emissions intensity (all)	36.5	42.6	50.8	61.5	56.1

* Scope 3 emissions cover materials, energy and flights

GHG emissions (market-based)	2021	2020	2019	2018
Direct (Scope 1) (tCO ₂ e)	54,711	52,911	56,568	59,949
Indirect (Scope 2) (tCO ₂ e)	36,062	46,306	53,453	63,768
Other indirect (Scope 3) (tCO ₂ e) *	89,680	104,976	160,960	204,065
GHG emissions intensity (all)	37.8	44.5	52.5	63.9

* Scope 3 emissions cover materials, energy and flights

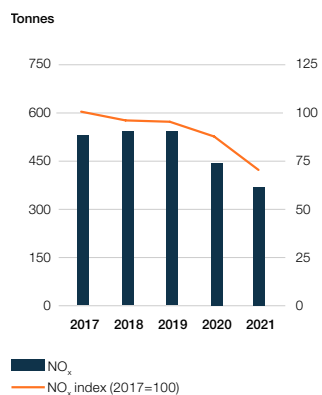
Teams meetings, allowing multiple people to interact and share presentation material from personal computers, with a video conferencing option. In Wärtsilä, Teams meetings and video conferences are in everyday use. Approximately 5,500 Teams conferences are arranged daily. There are 250 rooms globally equipped with specific Teams Room devices.

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

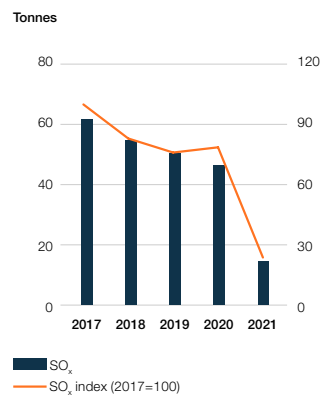
Air emissions are mainly caused by test runs and the painting of completed engines or other Wärtsilä products. Test run emissions consist of nitrogen oxides (NO_x), sulphur dioxide (SO_x), carbon dioxides (CO₂) and particles, as well as small amounts of other emission components. The painting of engines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

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

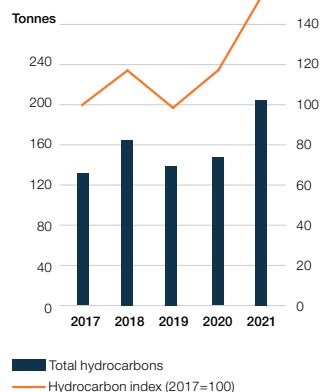
Annual NO_x emissions



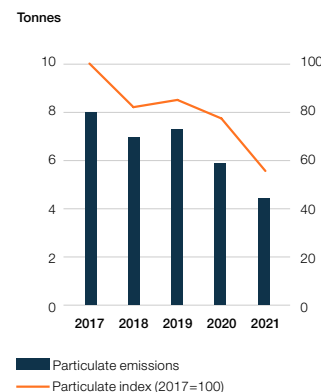
Annual SO_x emissions



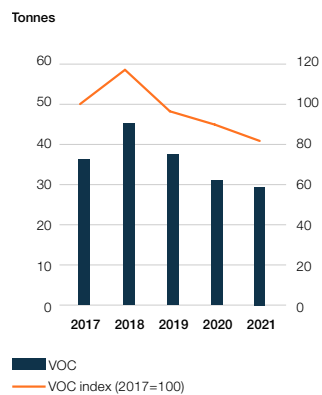
Total hydrocarbons



Annual particulate emissions



Annual VOC emissions



EFFLUENTS AND WASTE

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

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

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

In 2021, the total amount of water discharge was 11,391,173 m³.

2021 water discharge	Municipal sewer	Sea	River	Ground
Amount (m ³)	108,451	10,987 338	288,273	7,111
% of total water discharge	1.0	96.5	2.5	0.1

Waste by type and disposal method (GRI 306-1, 306-2, 306-3)

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

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

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

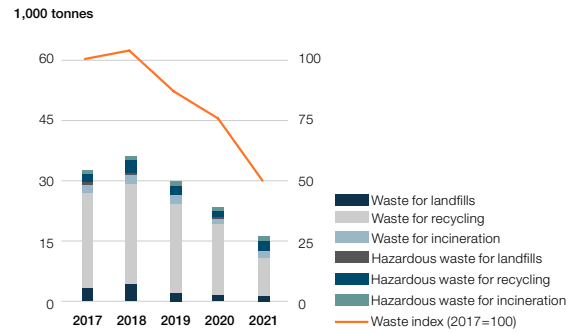
EXPENDITURES

Total environmental protection expenditures and investments

Concerning Wärtsilä's operations, we have defined expenditures as environmental expenditures if they are related to soil, water and air pollution control, waste management, environmental management, or noise control. A substantial proportion of our investments in product development are targeted at securing environmental compliance, which provide short and long-term benefits for the whole value chain, and ultimately for the environment.

Environmental costs (MEUR)	2021	2020	2019	2018	2017
Environmental capital expenditures	0.1	3.0	1.0	0.6	4.0
Environmental operating expenditures	2.8	3.1	3.8	4.0	3.8

Annual waste



Waste (t)	2021	2020	2019	2018	2017
Non-hazardous waste	12,295	20,683	26,439	31,240	28,928
Landfill	1,259	1,596	2,022	4,051	3,198
Recycling	9,349	17,517	22,133	24,791	23,647
Incineration	1,644	1,504	2,215	2,305	1,990
Biowaste	44	66	69	92	95
Hazardous waste	3,725	2,687	3,847	4,785	3,651
Landfill	181	186	318	579	548
Recycling	2,325	1,581	2,261	3,063	2,113
Incineration	1,220	920	1,268	1,143	990
TOTAL	16,020	23,370	30,287	36,025	32,580



SOCIAL

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

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

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 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 quarter 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.

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.

EMPLOYMENT

Information on employees and other workers in 2021 (GRI 102-8, GRI 401-1)

In addition to direct employment, Wärtsilä employed also indirectly an external workforce totalling of 6,584 man-years in subcontracting at its factories and units. The units located in Finland had a total personnel of 3,652 employees.

All in all, 1,953 employees left and 2,045 joined Wärtsilä globally during 2021 for different reasons. Wärtsilä had 17,305 employees at the end of 2021.

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

In general, temporary and part-time employees are offered the same benefits as permanent employees. In some countries, eligibility is linked to the number of months or years of service

– such differences are typically based on collective agreements according to local legislation.

LABOUR / MANAGEMENT RELATIONS

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

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

OCCUPATIONAL HEALTH AND SAFETY

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

Wärtsilä companies apply occupational health and safety programmes as required by local legislation. These are normally developed by occupational health and safety committees consisting of representatives from both management and personnel. Altogether, 73% of Wärtsilä companies have an occupational health and safety committee covering in total 88% of Wärtsilä's employees.

Information on employees and other workers in 2019 (GRI 102-8, GRI 401-1)

Personnel	2021	2020	2019	2018	2017
Number of employees at the end of the year	17,305	17,792	18,795	19,293	18,065
Personnel by business					
Marine Power	8,224	8,355	8,820		
Marine Systems	1,894	1,897	1,870		
Voyage	1,725	1,915	1,889		
Energy	4,980	4,888	5,137		
Portfolio Business	482	737	1,080		
Personnel by market area					
Europe	10,716	11,080	11,618	11,693	10,463
Asia	3,719	3,979	4,341	4,726	4,890
Americas	2,106	1,969	2,016	2,074	1,960
Other	764	764	820	801	753
Average age of employees	42.5	42.7	41.6	41.4	41.5
Permanent employees (%)	93	94	93	93	92
Temporary employees (%)	7	6	7	7	8
Full-time employees (%)	98	98	98	98	98
Part-time employees (%)	2	2	2	2	2
Employee turnover (resigned) (%)	7.3	5.6	6.7	5.7	5.3
Net employment creation	-476	-1,001	-571	923	-213

Number of employees by employment contract and gender in 2021	Permanent	Temporary
Total	16,154	1,150
Male	13,452	928
Female	2,703	223

Number of employees by employment contract and region in 2021	Permanent	Temporary
Europe	10,387	330
Asia	3,101	618
America	2,053	52
Other	613	151

Permanent employees by employment contract type and gender in 2021	Full-time	Part-time
Total	15,862	293
Male	13,209	244
Female	2,653	49

New employee hires in 2021	Employees	Rate (%)
Total	2,045	11.8
Gender		
Male	1,600	11.1
Female	445	15.2
Age group		
< 30 years	801	48.9
30–50	1,041	9.4
> 50 years	203	4.4
Market area		
Europe	1,138	10.6
Asia	379	10.2
Americas	386	18.3
Other	142	18.6

Employee turnover (resigned) in 2021	Employees	Rate (%)
Total	1,183	7.3
Gender		
Male	967	7.2
Female	216	8.0
Age group		
< 30 years	158	11.7
30–50	728	7.1
> 50 years	297	6.6
Market area		
Europe	747	7.2
Asia	236	4.9
Americas	166	4.4
Other	34	8.6

Work-related injuries (GRI 403-9)

The lost time injury frequency for 2021 was 1.55, which was 23% lower than in the previous year. 6 Wärtsilä employees suffered high consequence work-related injuries in 2021.

There were 2 work-related fatalities within Wärtsilä operations during the year. In March, a contractor's employee lost his life at a power plant in Bangladesh during a lifting operation when a cross beam of the temporary structure fell, trapping the victim beneath it. In October 2021, a Wärtsilä employee lost his life at a shipyard in Estonia when an object fell and hit the employee during a lifting operation inside a vessel's engine room. The lifting operation was conducted by the shipyard and the vessel's crew without Wärtsilä's involvement. The danger zone was not barricaded to prevent employees entering the area under the suspended load. Both fatal incidents have been investigated and the lessons learned shared within the Wärtsilä organisation.

The most common types of work-related injuries in 2021 resulted from slips and tripping, being caught between objects and/or in machinery, being hit by moving or dropping objects or pressure, manual overloading, and contact with sharp objects. Wärtsilä has a global hazard and near miss reporting system for high-potential work-related incidents. In 2021, Wärtsilä identified 313 (1.0% of all reported hazard / near miss cases) high-potential work-related incidents. The majority of these were related to fire risks, potential exposure to chemicals, heat and diseases, slip and fall hazards, the risk of getting caught between objects and machinery, or being hit by moving objects, as well as traffic related incidents.

Work-related ill health (GRI 403-10)

Wärtsilä employees constantly work close to running engines while conducting overhaul or testing activities, which exposes them to high levels of noise. Wärtsilä has occupational safety and health programmes in place to prevent hearing loss, including providing hearing protectors to those employees at risk of hearing loss or impairment. In 2021, there were in total three cases of occupational disease diagnosed, which is equivalent to 0.09 cases / million worked hours.

Type of injury and rates of injuries, occupational diseases, lost days and absenteeism, and total number of work-related fatalities (GRI 403-2)

Injuries	2021	2020	2019	2018	2017
Number of total recordable injuries (excl. first aid cases)					
Employees	94	109	136	176	163
Contractors	39	26	37	48	
Number of lost time injuries resulting in at least 1 day absence					
Employees	55	72	85	90	88
Contractors	29	14	20	35	
Total recordable injuries / million working hours					
Employees	2.65	3.1	3.7	4.8	4.5
Contractors	3.44	3.3	3.4	4.0	
Lost time injuries / million working hours					
Employees	1.55	2.0	2.3	2.5	2.5
Contractors	2.56	1.8	1.8	3.1	
Absence rate, employees					
Absence due to illness (% of total working hours)	2.1	2.0	2.1	2.2	2.0
Absence due to lost time injury (% of total working hours)	0.06	0.07	0.07	0.11	0.13
Absence due to occupational diseases (% of total working hours)	0.0	0.0	0.0	0.0	0.0
Fatalities					
Number of fatalities, total	2	0	1	1	1
Employees	1	0	0	1	0
Contractors	1	0	1	0	1

TRAINING AND EDUCATION

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

Wärtsilä's average number of training days in 2021 for male employees was 1.12 and for female employees 0.94.

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

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

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

Training days/employee	2021	2020	2019	2018	2017
All employees	1.1	1.1	2.10	2.20	2.20
Managers and superiors	0.9	1.1	2.10	2.90	3.50
White-collar employees	1.0	1.0	1.90	2.10	3.0
Blue-collar employees	1.3	1.3	2.30	2.10	2.0

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

Development discussions held annually	2021	2020	2019	2018	2017
Coverage %	91	91	91	96	96

DIVERSITY AND EQUAL OPPORTUNITY

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

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

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

Diversity	2021	2020	2019	2018	2017
Male/female ratio (%)	83/17	83/17	83/17	83/17	84/16
Executive positions globally: male/female ratio (%)	80/20	80/20	83/17	87/13	89/11
Regional diversity					
Number of nationalities	130	139	140	137	136

Number of employees per age group in 2021	Employees	Ratio (%)
< 30 years	1,639	9.5
30–50	11,030	63.7
> 50 years	4,636	26.8

Members of the Board of Management (BoM) and Board of Directors (BoD) by age group in 2021	BoM (%)	BoD (%)
< 30 years	0	0
30–50	33.3	12.5
> 50 years	66.7	87.5

Members of the Board of Management (BoM) and Board of Directors (BoD) by gender in 2021	BoM (%)	BoD (%)
Female	22.2	50
Male	77.8	50

CUSTOMER SATISFACTION

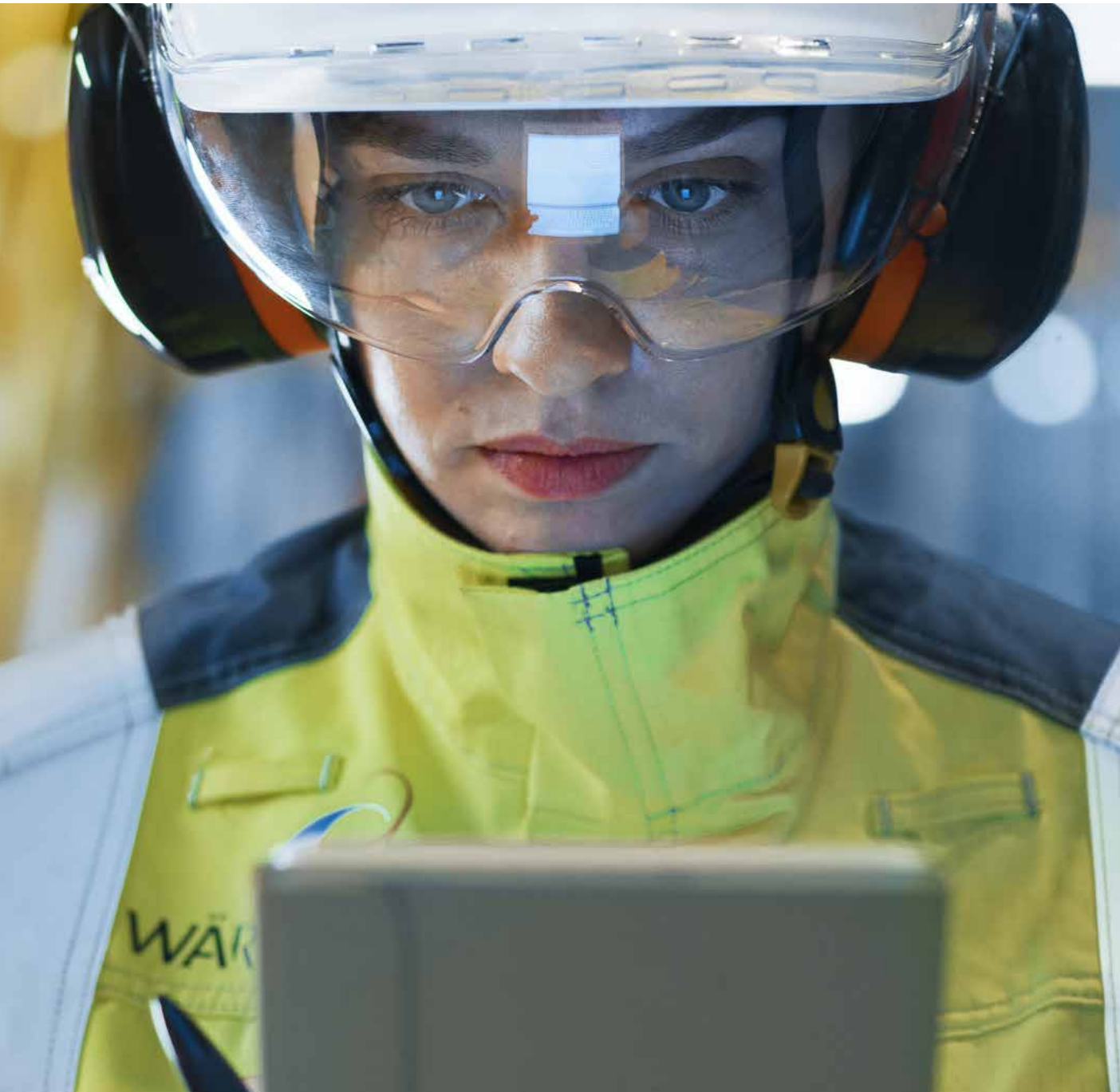
Results of surveys measuring customer satisfaction (GRI 102-43)

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

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

Customer loyalty	2021	2020	2019	2018	2017
NET Promoter Score, NPS	63	59	59	53	45
Sample	3,447	3,332	2,787	3,356	4,875

Net promoter score scale is from -100 to 100.



COMPLIANCE

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

Significant spills and complaints

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

The main environmental disturbances that occurred in Wärtsilä's business locations in 2021 were three minor fuel or oily water spills and an LNG leakage of approximately 20 m3. These disturbances were investigated and the appropriate corrective actions to minimise the impact on the environment were taken in each case.

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

Wärtsilä Sweden AB was charged a fine of EUR 4,854 for failing to obtain a transfer permit for a chemical product the company was selling. The permit was obtained shortly after the fine was received.

Wärtsilä Sweden AB was charged a fine of EUR 2,427 for the incorrect labelling and documentation of a chemical shipment. Corrective actions were taken to ensure future compliance.

Wärtsilä Trident B.V. received an official warning from the Rijkswaterstaat authority. This was for having on one occasion in 2020 failed to comply with the environmental permit requirements on working with an effluent pump leading to a filter unit on shore when conducting propeller polishing operations.

Wärtsilä Singapore Pte Ltd was charged a fine of EUR 2,580 for failing to obtain in time a license for petroleum and flammable storage. The permit was obtained promptly after the fine was received.

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

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

Wärtsilä Korea Ltd. was charged a penalty fee of EUR 38,693 for not fulfilling its legal obligation to hire disabled persons as a minimum 5% of the company's total employees. The company has mainly hired blue-collar employees, which limits the suitable job offerings for disabled people.

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

Wärtsilä India Ltd. has eight ongoing judicial proceedings, out of which six pertain to ex-employees' perceived improper labour and dismissal practices; and two pertain to dispute on applicability of certain provisions of employment legislations. It typically takes several years in India for these types of disputes to be concluded, and thus some of the proceedings have been ongoing already since 2016. Also, an ex-employee of the company has raised a judicial proceeding on the basis of alleged sexual harassment at workplace against three serving employees in 2020.

Wärtsilä Brasil Ltda. was issued a notice of violation by the Brazilian Ministry of Labour for not fulfilling its legal obligation to hire disabled persons as a minimum 3% of the company's total workforce. The company has filed an appeal against the resulting fine, a process which is still ongoing for the cases dating from 2019, 2020 and 2021. The company has specifically extended every vacancy advertisement to disabled people, whenever possible.

Environmental compliance

Disturbances, complaints, and non-compliances	2021	2020	2019	2018	2017
Environmental					
Disturbances	4	3	4	5	6
Non-compliances	4	2	1	3	1
Complaints	0	1	0	1	1
Social					
Non-compliances	1	2	2	2	1
Fines of non-compliance cases (EUR)	50,329	47,449	38,327	25,962	22,575

Non-compliance cases presented in previous reports

Wärtsilä France S.A.S. no longer has the water treatment plant that exceeded the environmental permit limits, and have since outsourced its water discharge processing.

Wärtsilä France S.A.S. has applied for an exemption to its environmental permit on exceeding the NOx emissions limits for engine testing purposes from the Regional Directorate for the Environment. The application has not yet been decided upon by the authority.

Wärtsilä Voyage Limited no longer has a canteen, of which water discharges in 2019 were found to exceed the environmental permit limits on chemical and biological oxygen consumption.

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

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

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

A Russian court of law has decided that Wärtsilä's Russian subsidiary, Transas Navigator Ltd., had violated antitrust legislation. The alleged anti-competitive actions took place in 2018, before Wärtsilä acquired the company. Transas Navigator was held administratively liable and a penalty of MEUR 1.13 was imposed. Transas Navigator Ltd. is appealing the decision.

Wärtsilä arranged, as it has earlier, a number of competition law training seminars in 2021 for relevant personnel in order to further promote their knowledge of competition laws, and thus ascertain full compliance with such laws.

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

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

Political contributions (GRI 415-1)

During 2021, Wärtsilä did not make any contributions to political parties.



REPORT PROFILE

DATA COLLECTION

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

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

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

REPORT ASSURANCE

DNV Business Assurance Finland Oy Ab. has independently assessed the report against GRI Standards. As part of the assurance process, DNV assesses local level data management and processes, evaluates the relevance and reliability of the data reported to headquarters, and assesses whether the reporting guidelines of Wärtsilä are well understood and applied. This is achieved through conducting site visits and video conferences. In 2021, the site visits were carried out through video conferencing with Wärtsilä Italia, Wärtsilä Norway, Wärtsilä Pakistan, Wärtsilä Brasil, and Wartsila Voyage (Russia).

ADDITIONAL SOURCES OF INFORMATION

Wärtsilä has previously published the following reports:

Wärtsilä Environmental Report 2000
Wärtsilä Sustainability Report 2002
Wärtsilä Sustainability Report 2004
Wärtsilä Sustainability Report 2005
Wärtsilä Annual Report 2006
Wärtsilä Annual Report 2007
Wärtsilä Annual Report 2008
Wärtsilä Annual Report 2009
Wärtsilä Annual Report 2010
Wärtsilä Annual Report 2011
Wärtsilä Annual Report 2012
Wärtsilä Annual Report 2013
Wärtsilä Annual Report 2014
Wärtsilä Annual Report 2015
Wärtsilä Annual Report 2016
Wärtsilä Annual Report 2017
Wärtsilä Annual Report 2018
Wärtsilä Annual Report 2019
Wärtsilä Annual Report 2020

These reports and their sustainability data are available on

[Wärtsilä's website.](#)

SUSTAINABILITY REPORT PROJECT TEAM

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MATERIALITY ASSESSMENT

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

IDENTIFIED MATERIAL TOPICS AND BOUNDARIES

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

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

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

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

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

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

stakeholder assessment was on investors and financiers, major customers, personnel, local societies, and media.

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

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

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

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

Material topics (GRI 102-47)

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

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

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

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

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

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

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

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

- LOCK-N-STITCH Inc.
- Ships Electronic Services Ltd.

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

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

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

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

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

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

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

Coverage of operational data

Operational data, % of Wärtsilä companies	2021	2020	2019	2018	2017
Economic	100	100	100	100	100
Environmental	98	96	96	97	86
Social	100	100	100	100	100

Operational data, % of personnel	2021	2020	2019	2018	2017
Economic	100	100	100	100	100
Environmental	100	98	99	93	96
Social	100	100	100	100	100

Operational data, % of product manufacturing	2021	2020	2019	2018	2017
Economic	100	100	100	100	100
Environmental	100	100	100	100	100
Social	100	100	100	100	100



REPORTING PRINCIPLES

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

ECONOMIC PERFORMANCE DATA

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

Donations: The data of this indicator included all Wärtsilä subsidiaries and the parent company in 2021.

Subsidies: The data of this indicator included all Wärtsilä subsidiaries and the parent company in 2021.

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

Senior management includes all employees with the highest job grade levels 12-16. At the end of 2021, this covered 101 employees.

ENVIRONMENTAL PERFORMANCE DATA

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

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

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

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

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

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

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

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

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

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

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

Emissions: The reported figures are mainly based on measured values, based on which specific emission factors are determined. The specific emission factors are determined for various fuels and engine types. The emissions of the heating boilers are either

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

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

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

SOCIAL PERFORMANCE DATA

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

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

LTI frequency is expressed as reported lost time injuries and possible fatalities per million working hours. The working hours

are actual paid working hours. The lost time injury rate does not include commuting injuries.

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

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

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

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

Employees and other workforce: Data on Wärtsilä employees is mainly derived from the global SAP HR database. Less than 1% of employees, the amount varying between indicators, have not had all their employment details in the global HR databases. Their gender, employment and contract types have been assumed to be the same as an average global employee. The numbers of new hires and resigned employees do not include estimates of employees whose employment or resignation has not been formally recorded.



INDEPENDENT ASSURANCE REPORT

Our sustainability information and data for 2021 have been assured by an independent auditor, DNV Business Assurance Finland Oy Ab.

INDEPENDENT LIMITED ASSURANCE REPORT

To the Management of Wärtsilä Corporation

SCOPE OF ENGAGEMENT

Wärtsilä Corporation (“Wärtsilä”) commissioned **DNV Business Assurance Finland Oy Ab** (“DNV”) to conduct a limited assurance engagement over selected sustainability disclosures presented in the Wärtsilä Annual Report (“Report”) for the reporting period 1st January to 31st December 2021.

SELECTED INFORMATION

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

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

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

OUR CONCLUSIONS

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

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

STANDARD AND LEVEL OF ASSURANCE

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

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

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

BASIS OF OUR CONCLUSION

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

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

- Conducting five remote site audits to review processes and systems for preparing site-level data consolidated at Head Office. The site reviews were conducted at:
 - Wärtsilä Brazil,
 - Wärtsilä Italy,
 - Wärtsilä Norway,
 - Wärtsilä Pakistan, and
 - Wärtsilä Voyage.

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

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

INHERENT LIMITATIONS

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

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

OUR COMPETENCE, INDEPENDENCE AND QUALITY CONTROL

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

RESPONSIBILITIES OF THE MANAGEMENT OF WÄRTSILÄ AND DNV

The Management of Wärtsilä have sole responsibility for:

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

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

**For and on behalf of DNV Business Assurance Finland Oy Ab
Espoo, Finland**

3rd February 2022

Mikael Niskala

Lead Auditor
DNV Business Assurance

Olli Mlettinen

Principal Consultant and Reviewer
DNV Business Assurance

DNV Business Assurance Finland Oy Ab is part of DNV – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnv.com



GRI INDEX

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

GENERAL DISCLOSURES

GRI Standard / Disclosure	Links	Remarks	UNGC
GRI 102: General Disclosures			
Organisational profile			
102-1 Name of the Organisation	Strategy		■
102-2 Activities, brands, products, and services	Businesses in brief Strategy		■
102-3 Location of headquarters	Wärtsilä in the capital markets	Helsinki, Finland	■
102-4 Location of operations	This is Wärtsilä	www.wartsila.com	■
102-5 Ownership and legal form	Wärtsilä in the capital markets		■
102-6 Markets served	This is Wärtsilä		■
102-7 Scale of the organization	This is Wärtsilä Wärtsilä in the capital markets		■
102-8 Information on employees and other workers	Social data		■
102-9 Supply chain	Sustainability at Wärtsilä		■
102-10 Significant changes to the organization and its supply chain	Social data		■
102-11 Precautionary Principle or approach	Climate change and environment Risks and risk management		■
102-12 External initiatives	Commitments and principles		
102-13 Membership of associations	Stakeholder relations		
Strategy			
102-14 Statement from senior decision-maker	CEO review		■
102-15 Key impacts, risks, and opportunities	Risks and risk management Strategy Businesses in brief		■

GRI Standard / Disclosure	Links	Remarks	UNGC
Ethics and integrity			
102-16 Values, principles, standards, and norms of behaviour	Strategy Responsible business conduct		■
102-17 Mechanisms for advice and concerns about ethics	Responsible business conduct Compliance data		■
Governance			
102-18 Governance structure	Governance Board of Directors		■
102-19 Delegating authority	Governance Board of Directors		■
102-20 Executive-level responsibility for economic, environmental, and social topics	Group Management		■
102-21 Consulting stakeholders on economic, environmental, and social topics	Annual General Meeting Internal control		■
102-22 Composition of the highest governance body and its committees	Board of Directors		■
102-23 Chair of the highest governance body	Board of Directors		■
102-24 Nominating and selecting the highest governance body	Annual General Meeting Board of Directors	The nomination committee proposes new board members. The committee consults major shareholders, and in their proposals they take into account the specific needs of the Board, including sustainability competencies and diversity.	■
102-25 Conflicts of interest	Board of Directors Internal control Wärtsilä in the capital markets		■
102-26 Role of highest governance body in setting purpose, values, and strategy	Board of Directors Internal control		■
102-27 Collective knowledge of highest governance body	Internal control Group Management		■
102-28 Evaluating the highest governance body's performance	Board of Directors	The evaluation is of general nature, but also includes sustainability issues if such concerns arise. The evaluation partly affects the membership changes within the Board.	■
102-29 Identifying and managing economic, environmental, and social impacts	Board of Directors Risks and risk management		■

GRI Standard / Disclosure	Links	Remarks	UNGC
102-30 Effectiveness of risk management processes	Board of Directors		■
102-31 Review of economic, environmental, and social topics	Board of Directors Internal control	10 meetings in 2021	■
102-32 Highest governance body's role in sustainability reporting	Report profile		■
102-33 Communicating critical concerns	Internal control		■
102-34 Nature and total number of critical concerns		This information is not publicly disclosed.	■
102-35 Remuneration policies	Remuneration report		■
102-36 Process for determining remuneration	Board of Directors People and Culture		■
102-37 Stakeholders' involvement in remuneration	Remuneration report		■
102-38 Annual total compensation ratio		This information is not publicly disclosed.	■
102-39 Percentage increase in annual total compensation ratio		This information is not publicly disclosed.	■
Stakeholder engagement			
102-40 List of stakeholder groups	Stakeholder engagement		■
102-41 Collective bargaining agreements		56% of Wärtsilä employees were covered by collective bargaining agreements in 2021.	■
102-42 Identifying and selecting stakeholders	Stakeholder engagement		■
102-43 Approach to stakeholder engagement	Stakeholder engagement Customer satisfaction		■
102-44 Key topics and concerns raised	Stakeholder engagement		■

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

TOPIC-SPECIFIC STANDARDS

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

GRI Standard / Disclosure	Links	Remarks	UNGC	Material topic disclosures
301-2 Recycled input materials used	Materials	The recycled material input of metals varies between 20% and 95%, depending on the type of furnace and foundry used by the metal recycling companies in the supply chain, of which there are too many to state annex percentage.	■	
GRI 302: Energy				
302-1 Energy consumption within the organization	Energy		■	
302-3 Energy intensity	Energy		■	
302-4 Reduction of energy consumption	Energy		■	
GRI 303: Water and effluents 2018				
303-3 Water withdrawal	Water		■	
303-4 Water discharge	Water discharge		■	
303-5 Water consumption	Water		■	
GRI 305: Emissions				
305-1 Direct (Scope 1) GHG emissions	Emissions		■	■
305-2 Energy indirect (Scope 2) GHG emissions	Emissions		■	■
305-3 Other indirect (Scope 3) GHG emissions	Emissions		■	■
305-4 GHG emissions intensity	Emissions		■	■
305-5 Reduction of GHG emissions	Emissions		■	■
305-6 Emissions of ozone-depleting substances (ODS)	Emissions	Not applicable, Wärtsilä does not produce, import or export ODS.	■	■
305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Emissions		■	■
GRI 306: Waste 2020				
306-1 Waste generation and significant waste-related impacts	Effluents and waste		■	
306-2 Management of significant waste related impacts	Effluents and waste		■	
306-3 Waste generated	Effluents and waste		■	

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

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



GOVERNANCE

CORPORATE GOVERNANCE STATEMENT 2021

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

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

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

WÄRTSILÄ'S GOVERNANCE MODEL

External Audit

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

Internal Audit

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

Annual General Meeting

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

Board of Directors

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

President & CEO

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

Board of Management

The Board of Management supports the President & CEO.

Shareholders' Nomination Board

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

Audit Committee

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

People Committee

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

ANNUAL GENERAL MEETING

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

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

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

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

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

ANNUAL GENERAL MEETING 2021

Wärtsilä's Annual General Meeting was held on 4 March 2021, with shareholders having the possibility to follow the meeting via a video stream and to vote in advance. A total of 1,541 shareholders voted in advance, representing 341,416,489 votes.

The Annual General Meeting 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 audit firm PricewaterhouseCoopers Oy was elected as the auditor of the company for the year 2021. The 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. The Board of Directors was authorised to resolve to repurchase a maximum of 57,000,000 of the company's own shares. In addition, the Board of Directors was authorised to resolve to issue a maximum of 57,000,000 shares in the company. The shares can be issued for consideration or without consideration. They can also be issued in deviation from the shareholders' pre-emptive rights by way of a directed issue, if there is a weighty financial reason for the Company to do so. Advance voting was held on matters on the agenda of the Annual General Meeting subject to voting. The detailed results of advance voting were recorded in the minutes of the meeting. The minutes of the meeting and other related documents can be found on Wärtsilä's website at www.wartsila.com/agm.

SHAREHOLDER'S NOMINATION BOARD

The Shareholders' Nomination Board prepares and presents to the General Meeting proposals relating to the composition and remuneration of the Board of Directors. In addition, the Nomination Board reviews and adjusts the diversity principles of the Board of Directors, as necessary, and does successor planning of the directors.

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

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

Diversity principles

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

With regards to gender, Wärtsilä's objective is to have a balanced representation of both genders in the Board. In December 2021, Wärtsilä had four female board members out of eight members in total.

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

SHAREHOLDERS' NOMINATION BOARD 2021

In June 2021, the following members were appointed to Wärtsilä's Shareholders' Nomination Board:

Petra Hedengran

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

Reima Ryttsölä

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

Mikko Mursula

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

Hanna Hiidenpalo

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

Tom Johnstone CBE

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

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

BOARD OF DIRECTORS

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

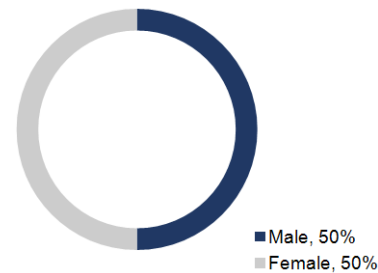
According to the Corporate Governance Code's recommendation 10, the majority of Board members shall be independent of the company, and at least two of the members representing this majority shall be independent of significant shareholders of the company. The Board evaluates the independence of its members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

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

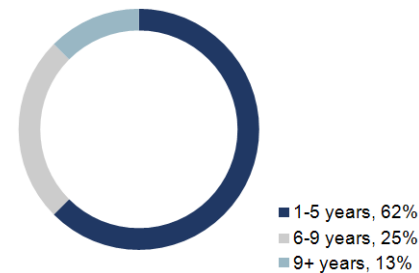
The Board conducts an annual self-evaluation of its operations and working methods. The purpose of this evaluation is to assess how the Board has executed its tasks during the year and to act as a basis for developing Board functions.

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

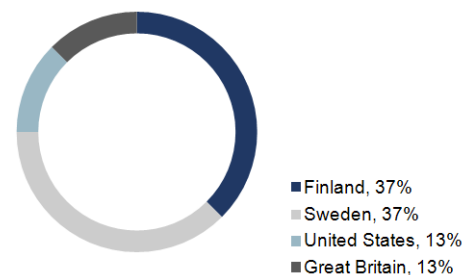
Gender diversity



Tenure



Nationality



Applicable to the Board of Directors elected by the Annual General Meeting 2021

BOARD OF DIRECTORS IN 2021

As of 4 March 2021, the Board comprised the following eight members: Ms Maarit Aarni-Sirviö, Ms Karen Bomba, Ms Karin Falk, Mr Johan Forssell, Mr Tom Johnstone (Chair), Mr Risto Murto (Deputy Chair), Mr Mats Rahmström, and Ms Tiina Tuomela.

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

Until 4 March 2021, the Board comprised the following eight members: Ms Maarit Aarni-Sirviö, Ms Karen Bomba, Ms Karin Falk, Mr Johan Forssell, Mr Tom Johnstone (Chair), Mr Risto Murto, Mr Mats Rahmström, and Mr Markus Rauramo (Deputy Chair).

During 2021, Wärtsilä's Board of Directors held 10 meetings with an attendance rate of 100%. Major items on the agenda of the Board of Directors were the review of Wärtsilä's strategy and its implementation, its contribution to decarbonisation, as well as the financial development (e.g. growth, profitability and cash flow) of the company. The implications of the Covid-19 pandemic on the company's business operations and operating environment continued to be in focus. Other areas of importance included sustainability, technological developments, and the development of human resources and talent.

Board members' meeting participation in 2021

	Number of meetings	% of meetings
Tom Johnstone, Chair	10/10	100
Risto Murto, Deputy Chair	10/10	100
Maarit Aarni-Sirviö	10/10	100
Karen Bomba	10/10	100
Karin Falk	10/10	100
Johan Forssell	10/10	100
Mats Rahmstöm	10/10	100
Tiina Tuomela (as of 4 March 2021)	8/8	100
Markus Rauramo (until 4 March 2021)	2/2	100

Responsibilities of the Board of Directors

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

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

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

- approval of the long-term goals of the Group and its businesses, as well as the strategies to achieve them

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

The Boards' committees

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

Audit Committee

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

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

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

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

AUDIT COMMITTEE IN 2021

Chair Tiina Tuomela, members Maarit Aarni-Sirviö and Risto Murto. All members are independent of the company and significant shareholders. The Audit Committee met five times in 2021 with an attendance rate of 100%.

People Committee

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

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

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




PEOPLE COMMITTEE IN 2021

Chair Maarit Aarni-Sirviö, members Johan Forssell and Tom Johnstone. All members are independent of the company, and one is independent of significant shareholders. The People Committee met seven times in 2021 with an attendance rate of 100%.

Board members' committee meeting participation in 2021

	Audit committee	People committee
Tom Johnstone	-/-	7/7
Risto Murto	5/5	-/-
Maarit Aarni-Sirviö	5/5	7/7
Karen Bomba	1/1	-/-
Karin Falk	-/-	-/-
Johan Forssell	-/-	7/7
Mats Rahmström	-/-	-/-
Tiina Tuomela (as of 4 March 2021)	4/4	-/-
Markus Rauramo (until 4 March 2021)	1/1	-/-

Members of the Board of Directors

	Primary working experience	Other positions of trust	Shares
 <p>Tom Johnstone CBE</p> <p>Independent of the company, dependent of significant shareholders. Chair of the Board of Wärtsilä Corporation. Born 1955, Master of Arts, Honorary Doctorate in Business Administration and Honorary Doctorate in Science. Member of the Board of Wärtsilä Corporation since 2015, Chair of the Board since 2020.</p>	<ul style="list-style-type: none"> • SKF Group, several management posts, of which the most recent was President and CEO of AB SKF, 2003-2014 	<ul style="list-style-type: none"> • British Swedish Chamber of Commerce, Chairman of the Board • Combient AB, Chairman of the Board • Husqvarna AB, Chairman of the Board • Collegial AB, Chairman of the Board • Investor AB, Member of the Board • Northvolt AB, Member of the Board • Volvo Cars, Member of the Board 	<p>Holdings in Wärtsilä Corporation on 31.12.2021: 25,289 shares</p>
 <p>Risto Murto</p> <p>Independent of the company and significant shareholders. Born 1963, Ph.D. (Econ.). President & CEO of Varma Mutual Pension Insurance Company. Member of the Board of Wärtsilä Corporation since 2014, Deputy Chair of the Board since 2021.</p>	<ul style="list-style-type: none"> • Varma, Executive Vice President, Investments, 2010-2013 • Varma, Chief Investment Officer, Investments, 2006-2010 • Opstock Ltd, Managing Director, 2000-2005 • Opstock Ltd, Head of Equities and Research, 1997-2000 • Erik Selin Ltd., Head of Research, 1993-1997 	<ul style="list-style-type: none"> • e2 Research, Chairman of the Board • Securities Market Association, Member of the Board • The Finnish Pension Alliance TELA, I Deputy Chairman • Finance Finland (FFI), Member of the Board • Sampo plc, Member of the Board 	<p>Holdings in Wärtsilä Corporation on 31.12.2021: 19,101 shares</p>
 <p>Maarit Aarni-Sirviö</p> <p>Independent of the company and significant shareholders. Born 1953, M.Sc. (Tech.), eMBA. Member of the Board of Wärtsilä Corporation since 2007.</p>	<ul style="list-style-type: none"> • Directors' Institute Finland - Hallitusammattilaiset ry, Secretary General, 2012-2019 • Boardview Oy, Managing Director, 2012-2019 • Mint of Finland Ltd., President and CEO, 2008-2010 • Borealis Group, several senior positions in 1994-2008 of which the most recent Vice President BU Phenol, 2001-2008, and Vice President BU Olefins, 1997-2001 • Neste Oyj, 1977-1994 	<ul style="list-style-type: none"> • Finland National Committee for UN Women, Chairman of the Board <p>Relevant prior positions of trust</p> <ul style="list-style-type: none"> • Korona Invest, Senior Advisor, 2019-2021 • Directors' Institute Finland - Hallitusammattilaiset ry, Member of the Board, 2011-2019 • ecoDa (The European Confederation of Directors' Associations), Member of the Board, 2012-2019 • Berendsen plc, Member of the Board, 2014-2017 • Rautaruukki Oyj, Member of the Board, 2005-2012 • Ponsse Oyj, Member of the Board, 2007-2010 • Vattenfall AB, Member of the Board, 2004-2007 	<p>Holdings in Wärtsilä Corporation on 31.12.2021: 41,300 shares</p>

Primary working experience

Other positions of trust

Shares



Karen Bomba

Independent of the company and significant shareholders. Born 1964, B.Sc. Mechanical Engineering. Member of the Board of Wärtsilä Corporation since 2020.

- President of Smiths Interconnect, 2017-2020
- Morpho Detection, Inc., President & CEO, 2013-2017
- Labinal SA, Chairman and CEO, 2010-2013
- Zoltek Companies, Inc., Chief Operating Officer, 2008-2010
- Messier-Bugatti USA LLC, Chairman and CEO, 2004-2008
- Messier-Bugatti USA LLC, Executive Vice President and General Manager, 2000-2004
- Hitco Carbon Composites, Inc., Business Line Manager and Focused Factory Manager, 1993-2000
- Northrop Corporation, Manufacturing Engineering Manager, 1986-1993

Relevant prior positions of trust

- European Chamber of Commerce, Member of the Board, 2007-2008
- Tri-County Economic Development Corporation, Member of the Board, 2007-2008
- French American Chamber of Commerce, Member of the Board, 2005-2006

Holdings in Wärtsilä Corporation on 31.12.2021: **6,797** shares



Karin Falk

Independent of the company and significant shareholders. Born 1965, B.Sc. (Econ.). President, Husqvarna Construction Division. Member of the Board of Wärtsilä Corporation since 2017.

- Volvo Group, Senior Vice President, Volvo Trucks Services & Customer Quality, 2016-2020
- Volvo Group, Executive Vice President, Corporate Strategy & Brand Portfolio, 2012-2016
- Volvo Group, President, Non-Automotive Purchasing, 2008-2012
- Volvo Car Corporation, Vice President, Volvo Car Customer Service, 2006-2008
- Volvo Car Corporation, President, Volvo Car Special Vehicles, 2001-2006
- Volvo Cars and Volvo Group, various positions, 1988-2001

Holdings in Wärtsilä Corporation on 31.12.2021: **11,870** shares



Johan Forssell

Independent of the company, dependent of significant shareholders. Born 1971, M.Sc. (Economics and Business Administration). President & CEO of Investor AB. Member of the Board of Wärtsilä Corporation since 2017.

- Investor AB, Head of Core Investments and Member of the Management Group, 2006-2015
- Aleris AB, Project Director, 2014
- Investor AB, Head of Research, 2003-2006
- Investor AB, Head of Capital Goods and Healthcare sector, 2001-2003
- Investor AB, Head of Capital Goods sector and Analyst, 1995-1999

- Atlas Copco, Member of the Board
- Confederation of Swedish Enterprise, Member of the Board
- Epiroc AB, Member of the Board
- EQT AB, Member of the Board
- Patricia Industries, Member of the Board
- Stockholm School of Economics, Member of the Board

Holdings in Wärtsilä Corporation on 31.12.2021: **11,870** shares

Primary working experience

Other positions of trust

Shares



Mats Rahmström

Independent of the company and significant shareholders. Born 1965, MBA. President & CEO of Atlas Copco AB. Member of the Board of Wärtsilä Corporation since 2020.

- Atlas Copco AB, Business Area President, Industrial Technique, 2008-2017
- Atlas Copco AB, President, Atlas Copco Tools and Assembly Systems General Industry division within Industrial Technique, 2006-2008
- Atlas Copco AB, various positions in sales, service, marketing, and general management within Industrial Technique, 1988-2006

- The Association of Swedish Engineering Industries, Member of the Board
- Piab AB, Member of the Board
- The Royal Swedish Academy of Engineering Sciences, Member

Holdings in Wärtsilä Corporation on 31.12.2021: **30,297** shares



Tiina Tuomela

Independent of the company and significant shareholders. CFO, Uniper SE. Born 1966, MBA, M.Sc (Engineering). Member of the Board of Wärtsilä Corporation since 2021.

- Fortum Corporation, Executive Vice President, Generation Division, 2016-2021
- Fortum Corporation, Executive Vice President, Nuclear and Thermal Power Division, 2014-2016
- Fortum Corporation, various positions in finance, 2003-2014
- Imatran Voima Oy, various positions in finance, 1991-2003

- YIT Corporation, Member of the Board
- Teollisuuden Voima Oyj, Member of the Board

Relevant prior positions of trust

- Uniper SE, Member of the Supervisory Board, 2020-2021
- Finnish Energy, Member of the Board, 2018-2021
- Kemijoki Oy, Chairman of the Board, 2017-2021
- Forsmark Kraftgrupp AB, Member of the Board, 2014-2016
- Ekokem Oy, Member of the Board, 2014-2016
- Raskone Oy, Member of the Board, 2013-2015

Holdings in Wärtsilä Corporation on 31.12.2021: **2,581** shares

GROUP MANAGEMENT

The President & CEO

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

Mr Håkan Agnevall assumed the role of President and CEO on 1 February 2021. Prior to that, the President & CEO of the company was Mr Jaakko Eskola.

Board of Management

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

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

The Chief Financial Officer's main areas of responsibility include group accounting and control, treasury (including project and customer financing), taxation, process development, corporate planning, and investor relations. The Executive Vice Presidents of the businesses are each responsible for the sales volumes and profitability of their respective global business, deploying the capabilities of the Group's worldwide subsidiaries. The main areas of responsibility of the Executive Vice President, Corporate Relations & Legal Affairs are corporate relations and legal affairs, intellectual asset management and sustainability, environmental and occupational health and safety, as well as security, including

cyber security. The Executive Vice President, Human Resources is responsible for people related processes. The main areas of responsibility of the Executive Vice President, Communications, Branding & Marketing are external and internal communications, as well as branding and marketing. Information on the members of the Board of Management and their areas of responsibility and holdings can be found in the Board of Management CVs.

THE BOARD OF MANAGEMENT IN 2021

The Board of Management met 12 times during 2021. Major items on the agenda of the Board of Management were the strategic framework of the group, business strategies and their implementation plans, as well as the sustainability strategy and decarbonisation targets. The Board of Management also focused on market development, financial performance, regulatory environment, and technology development. Considering the substantial impact of Covid-19 on Wärtsilä globally, managing business continuity, and the protection of the health and safety of the company's own personnel and the personnel of its stakeholders were key priorities. Furthermore, other areas of importance included risk management, order intake and production capacity, as well as supplier and other stakeholder relationships.

Corporate management

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




Business management teams

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

Managing Directors of subsidiaries

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

Members of the Board of Management

	Primary working experience	Positions of trust	Shares
 <p>Håkan Agnevall President & CEO of Wärtsilä Corporation since February 2021. Born 1966, M.Sc. (Tech.), MBA. Joined the company in 2021.</p>	<ul style="list-style-type: none"> • Volvo Bus Corporation, President, 2013-2020 • Bombardier Transportation, Vice President, 2010-2013 • ABB Robotics, Senior Vice President, 2007-2009 • ABB High Voltage Cables, Vice President, 2003-2006 	<ul style="list-style-type: none"> • Technology Industries of Finland, Member of the Board 	<p>Holdings in Wärtsilä Corporation on 31.12.2021: 55,000 shares</p>
 <p>Arjen Berends Executive Vice President and Chief Financial Officer since 2018. Born 1968, MBA. Joined the company in 1988.</p>	<ul style="list-style-type: none"> • Wärtsilä Corporation, Vice President, Finance & Business Control, Marine Solutions, 2012-2018 • Wärtsilä Corporation, Vice President, Finance & Business Control, Wärtsilä Industrial Operations, 2010-2012 • Wärtsilä Corporation, Finance Director, Wärtsilä Industrial Operations, 2007-2010 • Finance Director, Propulsor Business and Finance Director, Wärtsilä Propulsion Netherlands B.V., 2002-2007 • Controller Marine / Manufacturing and Finance Director, Wärtsilä Norway AS, 1998-2002 • Wärtsilä Netherlands B.V., various controller positions, 1988-1998 		<p>Holdings in Wärtsilä Corporation on 31.12.2021: 1,500 shares</p>
 <p>Alid Dettke Executive Vice President, Human Resources from 2019 until 31 December 2021. Born 1981, Double-degree BA (Hons) European Business. Joined the company in 2017.</p>	<ul style="list-style-type: none"> • Wärtsilä Corporation, Vice President, Open Innovation, 2018-2019 • Wärtsilä Corporation, Vice President, Digital Innovation, 2017-2018 • Accenture Interactive, Senior Manager, Digital, Accenture Singapore, 2012-2017 • Accenture Interactive, Manager, Digital, Accenture Singapore, 2010-2012 • Accenture Interactive, Consultant, Digital, Accenture Singapore, 2007-2010 • Research International Asia, Senior Research Executive, 2005-2006 • BASF, Management Trainee, Regional e-Commerce Solutions, BASF South East Asia, 2004 		<p>Holdings in Wärtsilä Corporation on 31.12.2021: no shares</p>

Primary working experience

Positions of trust

Shares



Sean Fernback

President, Wärtsilä Voyage and Executive Vice President since 2020. Born 1963, Dipl. Electronics Engineering. Joined the company in 2020.

- Navico, Chief Technology Officer, 2018-2019
- C-MAP, Chief Executive Officer, 2016-2018
- HERE Technologies (formerly a Nokia company), President, 2014-2016
- TomTom International, Senior Vice President Engineering, 2006-2014

- Orca Technologies AS, Chairman of the Board
- AND Publishing BV, Member of the Supervisory Board
- Mapcode Foundation, Member of the Board

Holdings in Wärtsilä Corporation on 31.12.2021:
no shares



Tamara de Gruyter

President, Wärtsilä Marine Systems, Executive Vice President, and Head of Portfolio Business since 2020. Born 1972, B.Sc. Shipbuilding Engineering. Joined the company in 1998.

- Wärtsilä Corporation, Chief Transformation Officer and Head of Portfolio Business, 2019-2020
- Wärtsilä Corporation, Vice President, Marine Business Europe & Africa, 2019
- Wärtsilä Corporation, Vice President, Services North Europe, 2017-2018
- Wärtsilä Corporation, Vice President, Propulsion System Services, 2015-2018
- Wärtsilä Qiyao Diesel Company, Managing Director, 2014-2016
- Wärtsilä Pumps Pte Ltd, Managing Director, 2013-2014
- Wärtsilä CME Zhenjiang Propeller Co. Ltd., Managing Director, 2009-2013

- Combient AB, Member of the Board

Holdings in Wärtsilä Corporation on 31.12.2021:
no shares



Kari Hietanen

Executive Vice President, Corporate Relations and Legal Affairs since 2012. Born 1963, LL.M. Joined the company in 1989.

- Wärtsilä Corporation, Executive Vice President, Human Resources and Legal Affairs, 2002-2011
- Wärtsilä Corporation, Power Divisions, Group General Counsel, 2000-2002
- Wärtsilä Diesel Group, General Counsel, 1994-1999
- Metra Corporation and Wärtsilä Diesel Group, Legal Counsel, 1989-1994

- European Engine Power Plants Association, EUGINE, Vice President
- German-Finnish Chamber of Commerce, Member of the Board
- Finnish-Russian Intergovernmental Economic Commission, II Deputy Chairman
- Finnish-Korean Trade Association, Member of the Board
- East Office of Finnish Industries Ltd, Member of the Board
- Confederation of Finnish Industries (EK), Member of the Trade Policy Committee
- International Trade Committee, Finland Chamber of Commerce / ICC Advisory Board, ICC Finland, Member
- Industrial Forum of the European Commission, Member

Holdings in Wärtsilä Corporation on 31.12.2021:
17,333 shares

Primary working experience

Positions of trust

Shares



Roger Holm

President, Wärtsilä Marine Power and Executive Vice President since 2020. Born 1972, M.Sc. (Econ.). Joined the company in 1997.

- Wärtsilä Corporation, President, Marine Business and Executive Vice President, 2019-2020
- Wärtsilä Corporation, President, Marine Solutions and Executive Vice President, 2015-2019
- Wärtsilä Corporation, Senior Vice President, Engines, 2013-2015
- Wärtsilä Corporation, Vice President, Seals & Bearings, 2011-2013
- Wärtsilä Corporation, Vice President, Solutions Management, Services, 2010-2011
- Wärtsilä Corporation, Vice President, Business Development, Services, 2008-2010
- Wärtsilä Corporation, Chief Information Officer, 2006-2008
- Wärtsilä Corporation, Program Director, Global ERP Program, 2002-2006
- Wärtsilä Corporation, Corporate Controller, 2001-2002
- Wärtsilä Finland Oy and Wärtsilä NSD Finland Oy, various managerial positions, 1997-2001

- Hanken School of Economics, Member of the Board

Holdings in Wärtsilä Corporation on 31.12.2021: **15,196** shares



Atte Palomäki

Executive Vice President, Communications, Branding & Marketing since 2018. Born 1965, M.Sc. (Pol.). Joined the company in 2008.

- Wärtsilä Corporation, Executive Vice President, Communications and Branding, 2008-2018
- Nordea Bank AB (publ.), Group Chief Press Officer, 2007-2008
- Nordea Bank AB (publ.), Chief Communication Officer, Finland, 2005-2006
- Kauppalehti, Senior Business Correspondent, 2002-2005
- MTV3, Senior Economic Correspondent, 2000-2002
- MTV3, News Producer, 1995-2000
- MTV3, News Anchor, 1993-1995

- Marketing Executives Group Inc, Vice Chairman
- Finland Promotion Board, Member of the Board

Holdings in Wärtsilä Corporation on 31.12.2021: **14,493** shares



Sushil Purohit

President, Wärtsilä Energy and Executive Vice President since August 2020. Born 1972, B.Sc. (Eng.), MBA. Joined the company in 1998.

- Wärtsilä Corporation, Vice President, Energy Business, Americas, 2020
- Wärtsilä Corporation, Vice President, Energy Business, Middle East, Asia and Australia, 2019
- Wärtsilä Corporation, Vice President, Energy Solutions, Middle East, Asia and Australia, 2014-2018
- Wärtsilä Corporation, Vice President, Renewables and Energy Storage, 2016
- Wärtsilä Corporation, various managerial positions in power plant sales, 2001-2014

Holdings in Wärtsilä Corporation on 31.12.2021: **no shares**

Jaakko Eskola acted as President and CEO of Wärtsilä Corporation until 31 January 2021.

Teija Sarajärvi succeeded Alid Dettke as Executive Vice President, Human Resources on 1 January 2022.

INTERNAL CONTROL

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

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

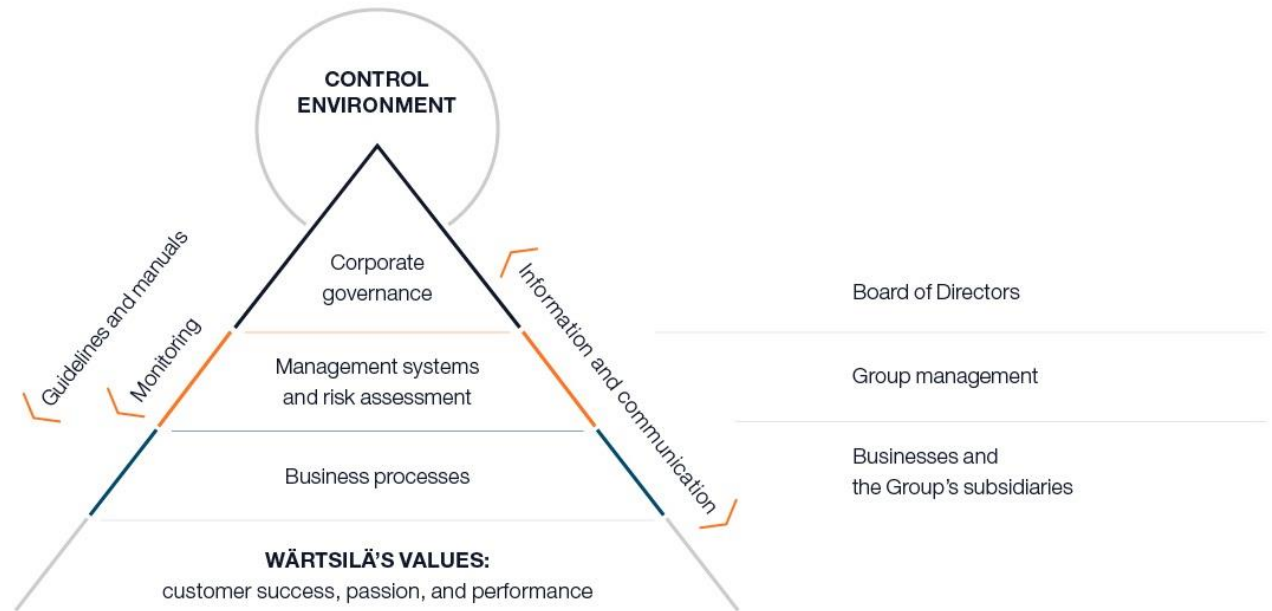
The system of internal control operates at all levels of Wärtsilä. Wärtsilä maintains and develops its internal control system with the ultimate aim of improving its business performance and, at the same time, complying with laws and regulations in countries where it operates.

Management systems

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

<http://www.wartsila.com/investors/governance/internal-control-framework>.

MAIN COMPONENTS OF WÄRTSILÄ'S INTERNAL CONTROL



Risk assessment

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

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

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

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

Values and the control environment

The foundation of Wärtsilä's internal control system lies on the company's values: customer success, passion, and performance. Wärtsilä's values are reflected in its day-to-day relations with its suppliers, customers, and investors, as well as in internal guidelines, policies, manuals, processes, and practices. The control environment sets the tone for internal control within Wärtsilä and influences the control awareness of its people. It provides discipline and structure for all the other components of internal control. The elements of Wärtsilä's control environment are included in the corporate culture; in the integrity, ethical values and

competence of Wärtsilä's personnel; as well as in the attention and direction provided to the personnel by the Board of Directors. Wärtsilä's values and control environment provide Wärtsilä's Board of Directors and management the basis for reasonable assurance regarding the achievement of the objectives of internal control. The President & CEO and the Board of Management define Wärtsilä's values and ethical principles, which are reflected in the Code of Conduct, and set an example for the corporate culture, which together create the basis for the control environment. They, together with the business management, are responsible for communicating Wärtsilä's values to the organisation.

Business processes

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

Guidelines and manuals

The components of Wärtsilä's internal control system, including for example corporate governance, management systems, the performance management process, as well as business and other processes, are described in various guidelines and manuals. The essential Group level policies and guidelines are compiled in Wärtsilä's Corporate Manual. Wärtsilä's Group level Accounting Manual contains instructions and guidance on accounting and financial reporting to be applied in all Wärtsilä Group companies. The manual supports the achievement of objectives related to the reliability of Wärtsilä's financial reporting. Wärtsilä's Group level policies, and any changes to them, shall be approved by a member of the Board of Management. In addition to the Group level guidelines and manuals, the businesses have issued related guidelines and instructions for their own, specific purposes. The business level guidelines and manuals are aligned with, and do not contradict, the Group level guidelines and manuals.

Information and communication

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

Monitoring

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

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

Wärtsilä's management performs monitoring as part of its regular supervisory activities. The business management is responsible for ensuring that all relevant laws and regulations are complied with in their respective responsibility areas. The Legal and Compliance function monitors adherence to the compliance policies of the Group.

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

Internal audit

Wärtsilä's internal audit is handled by its Internal Audit unit, which reports to the Audit Committee and to the Chief Financial Officer. The purpose of the Internal Audit unit is to analyse the company's operations and processes, as well as the effectiveness and quality

of its supervision mechanisms. The internal auditor also participates, if necessary, in audits undertaken in conjunction with acquisitions and carries out special tasks when needed. The Internal Audit function covers all the company's organisational levels and subsidiaries. An internal audit is undertaken in the subsidiaries and network companies at regular intervals, ranging from one to four years, based on a systematic evaluation.

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

Related party transactions

Wärtsilä's related parties comprise the members of the Board of Directors, the President & CEO, the other members of the Board of Management and persons related to them as per IAS 24, as well as the associated companies and joint ventures. The Group Finance & Control function evaluates and monitors transactions concluded between the company and its related parties to ensure that any conflicts of interest are considered appropriately in Wärtsilä's decision-making process.

Insider management

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

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

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

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

EXTERNAL AUDIT

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

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

AUDITOR IN 2021

The Annual General Meeting appointed the audit firm PricewaterhouseCoopers Oy (PwC) as Wärtsilä Corporation's auditor for the year 2021. The auditor-in-charge was Ms Merja Lindh. Auditing fees paid to PwC amounted to EUR 3.6 million in 2021. Consultancy fees unrelated to auditing duties totalled EUR 0.3 million. The latter fees concerned tax advisory and other services.

REMUNERATION REPORT 2021

REMUNERATION POLICY AT A GLANCE

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

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

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

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

2021 REMUNERATION AT A GLANCE

The Board fees approved for 2021 were the same as in 2020 and **the Board’s remuneration remained unchanged.**

Total remuneration paid for the CEO in 2021 increased from 2020. We welcomed **a new CEO in February 2021** and in conjunction with the recruitment, a temporary deviation from the Policy was made to ensure shareholder requirement. In 2020, the CEO took a voluntary pay cut. The 2020 short-term incentive scheme (STI) resulted in a pay-out, which was made in 2021.

A new share-based long-term incentive scheme (LTI) for the company’s management and selected key employees was decided by The Board in January 2021. The LTI is a Performance Share Plan (PSP). The performance criterion applied to PSP 2021 - 2023 is Economic Value Added (EVA).

We have introduced our ‘Set for 30’ sustainability strategy commitment. The goal is to become carbon neutral in our own operations by 2030, and to provide a product portfolio that will be ready for zero carbon fuels. Based on this we will include relevant **sustainability targets in our LTI 2022-2024.**

The 2019-2021 LTI did not result in pay-outs.

The STI targets 2021 were partly met, and pay-outs will be made in 2022 accordingly.

1. INTRODUCTION

1.1. Letter from the Chair of the People Committee

Dear Shareholders,

As Chair of the People Committee, I am pleased to present Wärtsilä's Remuneration Report for the financial year 2021. The report has been approved by the Board of Directors.

The past year has been marked by several milestones at Wärtsilä. Our former President and CEO Jaakko Eskola retired during 2021, and we were very pleased to welcome Håkan Agnevall as the new President and CEO as of 1 February 2021. We launched the Wärtsilä Way - our updated company strategy that defines our purpose, our target position, our strategic priorities, our execution plan, and our values. We also announced our ambitious "Set for 30" decarbonisation targets, demonstrating the company's commitment to its purpose of enabling sustainable societies through innovations in technology and services. Together we are shaping the decarbonisation of Marine and Energy. We challenge the status quo and help our customers navigate the route to reduced greenhouse gas emissions.

In 2021, the Covid-19 pandemic continued to affect our end markets, our operations, and our financial performance. However, we saw signs of stabilisation and recovery in both the marine and energy markets. As a result, order intake, net sales, result, and cash flow all improved.

Our people are our strength. Wärtsilians are at the centre of Business and People strategies, and the People Committee has been closely involved in creating the People strategy and supporting its implementation. The aim is to provide an exciting and engaging work experience for our 17,000 employees, and we believe that diverse high performing teams make a difference in realising this ambition. We recognise people for their performance and see rewarding as a key element in attracting, engaging, developing, and retaining the best talent to reach the best possible business and societal impact.

We launched a renewed long-term incentive scheme (LTI) in 2021, which rewards management and key employees based on Economic Value Added (EVA) performance. EVA was selected as a measure for the LTI plan as it holds company executives accountable for earning an "economic" return (profitability) higher

than the cost of capital, and as such creates value for shareholders. EVA encourages the optimal use of both operating assets and financial assets. It stimulates company executives to work continuously on cost optimisation and maximising profitability, on investing capital consciously, and on the optimal use of assets. Our LTI plan 2022-2024 will, in addition to EVA, be linked to our new sustainability target to provide a product portfolio that will be ready for zero carbon fuels by 2030.

During 2021, the People Committee has complied with and executed the company's Remuneration Policy. One temporary deviation was made, as allowed in our Policy, with the recruitment of a new President & CEO. Our Board of Directors supported having our new President & CEO commit rapidly to the company. A recruitment sum was paid on the condition that it was used to purchase Wärtsilä shares, which has been done. The President & CEO will hold these to accelerate reaching his shareholding requirement.

Going forward, we continue to follow our 'Pay for Performance' principles of being responsive, transparent, and competitive while aligning relevant interests. These principles are designed to match employee rewards with the interests of the Company and its shareholders by providing compensation solutions that reward performance for delivering business results. Both long- and short-term incentive schemes will continue in 2022 with ambitious targets.

We welcome shareholder feedback on our Remuneration Report, Policy and practices.



Maarit Aarni-Sirviö
 Chair of the People Committee

The Remuneration Report outlines the remuneration for Wärtsilä's Governing Bodies as required by the Finnish Securities Market Act, the Finnish Limited Liability Companies Act, the Decree of the Ministry of Finance on the remuneration policy and remuneration report of a share issuer (608/2019), and the Finnish Corporate Governance Code 2020 (the "Code") issued by the Securities Markets Association. The report presents information on the remuneration of the Chief Executive Officer and the Board of Directors during the financial year 2021. It also presents the development of average employee remuneration and company performance over the past five financial years, in comparison to the CEO and Board's remuneration.

PEOPLE COMMITTEE ANNUAL CLOCK 2021



People Committee members' meeting participation in 2021

	Number of meetings
Maarit Aarni-Sirviö, Chair	7/7
Johan Forssell	7/7
Tom Johnstone	7/7

1.2 Remuneration and Company performance

The following section presents the development of both the average remuneration for employees, and company performance over the past five financial years, in comparison to the CEO and Board's remuneration. In the early years of the period, Wärtsilä's financial performance developed in line with its long-term targets. In 2021, the company's demand environment and performance continued to be affected by the Covid-19 pandemic, but there were signs of stabilisation and recovery.

Wärtsilä's Remuneration Principles set by the Policy are applicable to all employees, in all countries and in all businesses. These principles guide the development of remuneration and related practices, including for the CEO. The short-term incentive scheme (STI) is designed to provide incentives for the achievement of, and to reward the delivery of, the short-term business plan. The STI has been consistently based on profitability (comparable operating result) and cash flow targets over the past years. In 2021, sales growth was introduced as one of the group targets along with individual strategic targets. Long-term incentive schemes (LTI) are approved by the Board of Directors and are annually commencing individual performance share plans, each with a three-year performance period, designed to align the interests of participants with those of Wärtsilä's shareholders. LTI plans launched prior to 2021 were based on share price development. The newest long-term incentive scheme, launched in 2021, measures EVA. Beginning in 2022, the scheme will also reward performance that aligns with our sustainability targets. By aligning the incentive schemes with the goals of the Company, we can ensure that remuneration drives the best interests of the Company.

As Wärtsilä is a global company, the remuneration markets in which Wärtsilä operates vary significantly. Nevertheless, the



People Committee considers that the most transparent means for comparing the development of remuneration over time, is to compare the CEO and Board's remuneration with that of employees globally. Therefore, the figures shown for average employee remuneration are based on data for all Wärtsilä employees.

In line with the pay for performance principle, a substantial part of the CEO's remuneration is based on variable pay, i.e. short- and long-term incentives. As our performance targets for short- and long-term incentives are linked to the business results, this development is reflected in the CEO's remuneration. Employee

remuneration is less volatile than the CEO's, since a smaller portion of their total remuneration is based on variable pay elements. However, as all short-term incentive schemes are connected to the same performance indicators to a varying degree, employee remuneration is also impacted by Company performance.

The AGM approved an increase in fees for the Board of Directors in 2018. From 2019 and onwards, the fees have remained the same, and the total remuneration paid to the Board has remained rather stable. This also reflects the fact that Board members do not participate in any of the Company's incentive schemes.

Five-year development of remuneration and Company performance

	2017	2018	2019	2020	2021
Total Board remuneration, TEUR	718	829	808	816	794
Change compared to previous year, %		15.5	-2.5	1.0	-3.0
CEO base + benefits, TEUR*	785	862	894	843	915
Change compared to previous year, %		9.8	3.7	-5.7	8.5
CEO total remuneration, TEUR*	1,645	2,967	1,072	1,021	1,812
Change compared to previous year, %		80.4	-63.9	-4.8	77.5
Deputy CEO base + benefits, TEUR**	425	384			
Change compared to previous year, %		-9.6			
Deputy CEO total remuneration, TEUR**	1,028	1,396			
Change compared to previous year, %		35.8			
Average employee remuneration, TEUR***	60.6	55.0	58.5	58.1	62.9
Change compared to previous year, %		-9.1	6.3	-0.6	8.3
Comparable operating result, MEUR	576	577	457	275	357
Cash flow, MEUR	430	470	232	681	731

* The Company had a new CEO as of 1 February 2021. The total remuneration is combining the previous CEO's, including STI earned in 2020 and paid in 2021, as well as the new CEO's total remuneration.

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

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

The comparison figures show the remuneration paid out during each financial year. Pay-outs for the STI and LTI are always made during the year following the performance period. This means that, for example, remuneration figures presented for 2021 are based on the STI performance period 2020 and the LTI performance period of 2018–2020. During the past five financial years, the STI resulted in pay-outs in 2017, 2018, and 2021, while the LTI resulted in pay-outs in 2017 and 2018.

1.3. Any deviations or clawbacks made

As noted in the letter by the Chair of the People Committee, during 2021 the Company temporarily deviated from the Remuneration Policy in one respect in conjunction with the recruitment of the new President & CEO. To ensure instant alignment to the Wärtsilä share, he was awarded a lump-sum payment corresponding to one third of his annual base salary, with which he purchased Wärtsilä shares.

The Board considered a deviation from the Policy to be necessary, as the Remuneration Policy states that a temporary deviation can be considered when in the best interests for the company's long-term success. The deviation was prepared and approved following the process set in the Policy.

During 2021, the Company has not exercised any rights to reclaim or cancel any paid or unpaid incentives.

2. REMUNERATION OF THE BOARD OF DIRECTORS FOR 2021

The 2021 Annual General Meeting approved the following fees to the members of the Board of Directors for 2021 (no change from 2020):

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

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

In addition, each member is paid EUR 750 per meeting of the Board attended, the chair's meeting fee being double this amount. Furthermore, the Chair of the Audit Committee receives a fixed fee of EUR 20,000 and each member of the Committee a fixed fee of EUR 10,000 for the term, while the Chair of the People Committee receives a fixed fee of EUR 10,000 and each member of the Committee receives a fixed fee of EUR 5,000 for the term. The members of Wärtsilä's Board of Directors were paid altogether EUR 794 thousand. In addition, the Board members get reimbursed for their travel costs in accordance with Wärtsilä travel policy. The members of the Board are not covered by incentive schemes and do not receive performance-based remuneration, nor do they have a pension scheme arranged by Wärtsilä. All payments to members of the Board during the financial year 2021 were in compliance with the Remuneration Policy.

Fees paid to the members of the Board in 2021

	Attendance fees**, TEUR	Annual fees, TEUR	Total remuneration***, TEUR
Tom Johnstone, Chair	20	140	160 (5,163 shares)
Risto Murto, Deputy Chair (as of 4 March 2021)*	18	105	123 (3,872 shares)
Maarit Aarni-Sirviö	28	70	98 (2,581 shares)
Karen Bomba	8	70	78 (2,581 shares)
Karin Falk	8	70	78 (2,581 shares)
Johan Forssell	13	70	83 (2,581 shares)
Mats Rahmstöm	6	70	76 (2,581 shares)
Tiina Tuomela (as of 4 March 2021)	26	70	96 (2,581 shares)
Markus Rauramo, Deputy Chair (until 4 March 2021)	2	0	2 (no shares)

* Member of the board until 4 March 2021, Deputy Chair as of 4 March 2021

** Attendance fees also include committee fees.

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

3. REMUNERATION OF THE CEO FOR 2021

In 2021, the former CEO of Wärtsilä, Jaakko Eskola, was paid a total remuneration of EUR 420,530 in respect of his service as President and CEO until 31 January 2021. The relative proportion of fixed pay was 20%, and variable pay 80%. As of February 2021, the current CEO Håkan Agnevall was paid a total remuneration of EUR 1,391,714. The relative proportion of fixed pay was 78% and variable pay 22%. The fixed pay includes a base salary, benefits, and supplementary pension contributions, while variable pay includes short- and long-term incentives and other temporary payments. The remuneration of both the former and current CEO for 2021 is further illustrated below.

Actualised remuneration for Jaakko Eskola reflects the fixed pay only for the month of January 2021, while the amount of variable pay is based on the 2020 STI achievement which was paid in 2021.

Actualised CEO remuneration 2021 – Jaakko Eskola



- Base salary + benefits, 17%
- Supplementary pension, 3%
- Short-term incentives, 80% (earned in 2020)

Actualised CEO remuneration 2021 – Håkan Agnevall



- Base salary + benefits, 61%
- Supplementary pension, 18%
- Recruitment sum, 22%

3.1 Remuneration of the CEO until 31.1.2021 (Jaakko Eskola)

Metric	STI 2020 - paid in 2021		STI 2021 - accrued (paid in 2022)	
	Weighting	Achievement	Weighting	Achievement
STI 2020/2021:				
Group comparable operating result, MEUR	50%	Between minimum and target	60%	Below minimum
Group cash flow from operating activities	50%	Above maximum	20%	Above maximum
Group sales growth	n/a		20%	Between target and maximum
Pay-out to CEO based on STI, EUR		334,700		143,979

	LTI for performance period 2018-2020 Paid in 2021	LTI for performance period 2019-2021 Accrued (paid in 2022)
Key Performance Indicator	Total Shareholder Return	Total Shareholder Return
Number of incentive rights granted to the CEO	345,000	445,000
Starting share price, EUR (threshold for payment)	22.58	16.76
Measurement period for comparison share price	Q4 2020 + 100% of dividends paid	Q4 2021 + 100% of dividends paid
Maximum value per incentive right, EUR	8.47	6.56 <i>maximum earning opportunity of EUR 2,919,200</i>
Final comparison share price, EUR	8.65	13.56
Final value per incentive right, EUR	0.00	0.00
Achievement	Below threshold	Below threshold
Scheme payment date	February 2021	February 2022
Pay-out to the CEO based on LTI, EUR	0.00	0.00

Remuneration element	Paid	Description	Compliance with the Policy
Salary and short-term benefits	Paid 70,924	The CEO has the following short-term benefits: phone, car, medical insurance	Complies with the Policy.
Short-term incentives	Paid EUR 334,700 Accrued EUR 143,979 Policy maximum An amount equalling the annual fixed pay	For the financial year 2020, paid in 2021 ("paid"): EUR 334,700 For the financial year 2021 (pro-rated for January), paid in 2022 ("accrued"): EUR 143,979	Complies with the Policy.
Long-term incentives	Paid EUR 0 Accrued EUR 0 Policy maximum An amount equalling three times the annual fixed pay at grant	Based on LTI 2018-2020, paid in 2021 ("paid"): EUR 0 Based on LTI 2019-2021, to be paid in 2022 ("accrued"): EUR 0 Ongoing schemes: For LTI 2020-2022, the CEO was granted 630,000 incentive rights with a maximum earning opportunity of EUR 2,715,300. Due to retirement, the granted incentive rights are pro-rated to 315,000 with a maximum earning opportunity of EUR 1,357,650. All LTIs follow a three-year performance period.	Complies with the Policy.
Pension	Paid EUR 14,875	The CEO is eligible to take retirement upon reaching the age of sixty-three (63). His pension scheme is determined according to a defined contribution-based system. The retirement pension contribution is equivalent to 20% of the annual salary.	Complies with the Policy.
Severance benefits	N/A	Remuneration paid to the CEO if dismissed by the company corresponds to 18 months' salary plus a six months' period of notice salary.	Complies with the Policy.

3.2. Remuneration of the CEO as of 1.2.2021 (Håkan Agnevall)

STI 2021 - accrued (paid in 2022)		
Metric	Weighting	Achievement
Group comparable operating result, MEUR	40%	Below minimum
Group cash flow from operating activities	20%	Above maximum
Group sales growth	20%	Between target and maximum
Individual/strategic targets	20%	Between target and maximum
Pay-out to the CEO based on STI, EUR		442,853

Remuneration element	Paid	Description	Compliance with the Policy
Salary and short-term benefits	Paid EUR 844,214	The CEO has the following short-term benefits: phone, car, medical insurance. In addition, the CEO had following relocation benefits: temporary accommodation, relocation support, family related benefits, and taxation services.	Complies with the Policy.
Recruitment payment	Paid EUR 300,000	A recruitment sum was paid on the condition that it was used to purchase Wäertsilä shares, which has been done.	Temporary deviation from the Policy.
Short-term incentives	Accrued EUR 442,853 Policy maximum An amount equalling the annual fixed pay	For the financial year 2021, paid in 2022 ('accrued'): EUR 442,853	Complies with the Policy.
Long-term incentives	Paid EUR 0 Accrued EUR 0 Policy maximum An amount equalling three times the annual fixed pay at grant	Ongoing schemes: For LTI 2021-2023, the CEO was granted 104,651 shares, with value at target EUR 900,000 and with a maximum earning opportunity of 175% of base pay at grant. The performance measure in the LTI is Economic Value Added. All LTIs follow a three-year performance period.	Complies with the Policy.
Pension	Paid EUR 247,500	The CEO is eligible to take retirement upon reaching the age of sixty-three (63). His pension scheme is determined according to a defined contribution-based system. The retirement pension contribution is equivalent to 30% of the annual salary.	Complies with the Policy.
Severance benefits	N/A	Remuneration paid to the CEO if dismissed by the company corresponds to 18 months' salary plus a six months' period of notice salary.	Complies with the Policy.

RISKS AND RISK MANAGEMENT

THE AIM AND PRINCIPLES

Wärtsilä, like any other company, is exposed to various risks through the normal course of its activities. No business can be conducted without accepting a certain level of risk. By maintaining a risk aware culture and practising proactive management of risks, Wärtsilä aims to ensure that it can effectively execute its strategies, perform its operations, meet its objectives, reach its financial targets, and be prepared for potential external hazards.

Risk is an element of uncertainty on objectives resulting in, if materialised, a deviation from the expected, positive or negative, representing either a threat or an opportunity. Therefore, the focus in risk management activities is to identify such material risks that have the potential to restrain the company from reaching its goals, and to determine whether such risks are at an acceptable level. If not, corrective actions are taken to avoid, mitigate, transfer, or monitor the risks, or to capture and utilise the opportunities.

At Wärtsilä, the following statements apply:

- Wärtsilä considers that risk management is an integral part of its strategic and operational management, connected to the management systems and part of the company's culture.
- The risk management process is a systematic, continuous loop of repetitive steps of context establishment, risk identification, risk assessment, risk treatment, communication and consultation, and finally monitoring and review.
- The businesses are responsible for their risks and rewards, and thus managing risks is the responsibility of business management teams and individual managers. However, risk awareness is a matter for everyone at Wärtsilä.
- Risk management is subject to continuous improvements that reflect changes in the internal organisation and the external environment Wärtsilä operates in.
- The maturity of risk management is verified frequently.

RISK MANAGEMENT PRINCIPLES



Risk management framework and governance

Wärtsilä's over-arching risk management framework and practices defined therein follow the ISO 31000:2018 standard, with an emphasis on continuous improvement and verification. The risk management framework and guidelines are documented in the Group's Enterprise Risk Management policy that is applicable group wide. The policy was updated in 2021.

Wärtsilä's Board of Directors bears the ultimate accountability for defining the Group's overall risk appetite and tolerance level, and for the oversight of the Group's risk profile with quarterly reviews.

The President & CEO, together with the Board of Management, is responsible for setting the premise for a risk awareness culture at

Wärtsilä, and for ensuring that risk management is deeply embedded in all operations and processes with the appropriate tools and resources. The Board reviews the Group's risk profile, i.e. the most important risks and their treatment plans, on a quarterly basis, giving guidance and setting priorities as needed to ensure the sufficiency of risk management actions and controls.

The businesses at Wärtsilä are responsible for performing their strategies and achieving their set operational and financial targets. Equally, the businesses and their management teams are responsible for the deployment of continuous risk management actions to identify, manage, and treat all material risks, including project-specific risks. This work is cascaded to the business unit level in each business. Each business presents its risk profile to the President & CEO, the Chief Financial Officer, and the rest of the Board of Management on a quarterly basis.

The Corporate Risk Management function is part of Group Treasury that in turn reports to the Chief Financial Officer. The function is responsible for the risk reporting process, maintenance of the risk management system, and for supporting the businesses and their underlying organisations in risk management. The function also leads the internal risk management peer group that, together with business representatives, ensures proper alignment, knowledge sharing, and the continuous improvement of risk management at Wärtsilä.

Risk categorisation

Wärtsilä's over-arching risk management framework and practices classifies risks into strategic, operational, hazard, and financial risks. The potential impact is the highest with strategic and operational risks and the lowest with hazard and financial risks. Impacts can have upsides and downsides, with the exception of hazard risks, where only a negative effect is possible.

STRATEGIC RISKS

Strategic risk assessment is part of the strategic planning process within the Group. At Wärtsilä, a risk is defined as strategic if it has the potential for imposing a long-term impact on the business.

Business environment risks

Business cycles and megatrends in the global economy, and in customer industries, influence the demand for Wärtsilä's products, as well as its financial condition and operating result. Wärtsilä enjoys a certain level of stability in a cyclical market thanks to its flexible manufacturing model based on capacity outsourcing, its customer base in two separate end markets with different demand drivers, and a large share of sales deriving from service activities. Wärtsilä, along with its customers and suppliers, is indirectly affected by various important economic matters. These include the liquidity and solvency of financial institutions, meaning not only their capability but also their willingness to extend credit, and the counter cyclical stimulus programmes adopted by governments – especially in the power and infrastructure sectors. Among other influencing factors are the activities of multilateral institutions, such as the International Finance Corporation, and the availability of export credit schemes and guarantees.

The focus on mitigating the impacts of climate change is important for Wärtsilä's future growth potential, as the company's comprehensive portfolio of products and services already today supports customers in improving their environmental performance. A delay or an unpredictable change in the implementation of environmental policies and legislation may present a risk to Wärtsilä. Possible changes in their timelines and scopes are, therefore, actively monitored.

Market and customer risks

In 2021, the Covid-19 pandemic continued to have a negative impact on the investment and spending appetite of Wärtsilä's customers in both the marine and energy markets. Business operations continued to suffer from restrictions on mobility, power plant site access constraints, and efforts by customers to limit their cash expenditure. Prospects for epidemiological endpoint are increasingly different for each country after the emergence of more transmissible virus variants and differing rates of vaccination, especially in developing countries. The uncertainties regarding the trajectory and duration of the pandemic, and its long-term

implications on Wärtsilä's markets and the global economy have kept the visibility on demand development at a low level.

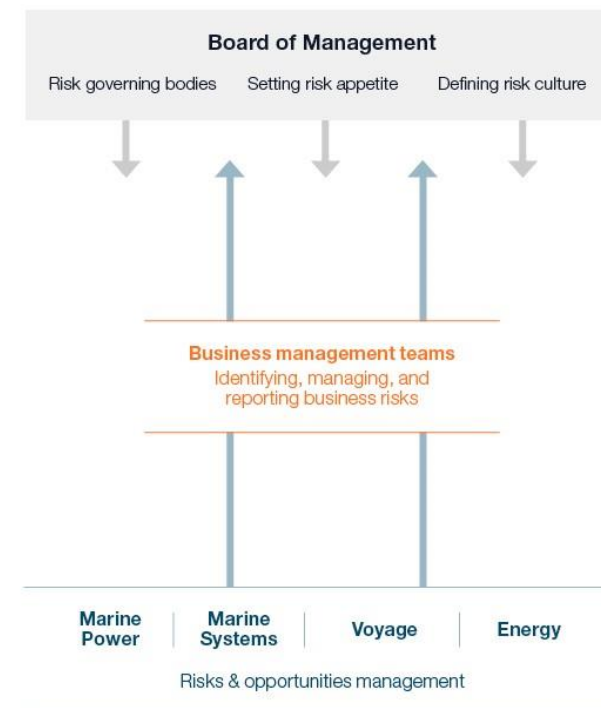
The energy markets are transitioning towards more sustainable energy sources. The penetration of renewable energy is increasing, not only because of the promotion of more environmentally sound sources of energy and regulatory pressure, but also because those forms of energy generation are the most economical to use. However, the energy output of renewables is more volatile, resulting in an increased need for balancing power, which is where Wärtsilä's flexible engine technology is advantageous. Furthermore, there is increasing demand for the energy storage and system integration capabilities that Wärtsilä offers.

In the energy markets, despite globally growing economic activity, 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. Changes in climate policies and regulations cause uncertainty in the markets, as they may impact technology choices for customers. Geopolitical tensions and the implications of trade barriers create notable challenges to the demand environment. Nevertheless, orders are received from all geographic regions, thus limiting the risk of a single market dependency. Furthermore, all of Wärtsilä's customer segments in the energy market are represented in the order intake.

In the shipbuilding industry, Wärtsilä is well represented in all the major markets and is active in all the main vessel segments. This, along with the company's large product portfolio and global service network, which provides lifecycle support to the growing installed base of over 50,000 vessels and 10,000 customers, mitigates both geographical and single customer risks.

Trade tensions, geopolitical uncertainty, and any prospects of a possible slowdown in the global economy affect investment decisions in the shipping industry. While slower economic growth is also a risk to demand development in the service markets, the capital-intensive newbuilding market is more sensitive to changes in the economic outlook. Changes in the financial landscape can result in challenges to securing financing for newbuilds. Surplus capacity can drive further consolidation among shipyards, ship owners, and operators in certain segments, which may result in

RISK REPORTING



lower capture rates in services and equipment sales due to changed customer relationships.

The shipping and shipbuilding markets are faced with increasing regulatory, financial, and end-customer pressure to decarbonise their operations. The importance of fuel efficiency and fuel flexibility is clearly visible, driving interest in environmental solutions, alternative fuels, as well as electric and hybrid solutions. 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, 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 slow down the green transition. A clear and foreseeable development of the regulatory environment is a fundamental condition to the decarbonisation of shipping.

Digitalisation has become increasingly important for both the shipping and energy industries' businesses and operating models. Wärtsilä continues to work towards the digital transformation of future shipping markets by developing and offering solutions that address customers' needs for safety and optimised efficiency. In the power generation markets, the growth of renewable energy sources and the deployment of new technologies have increased the complexity of energy systems. Wärtsilä's GEMS Digital Energy Platform, a propriety power system optimisation software, is a proven, efficient, and stable software platform, which enables customers to optimise utilisation of all the assets in their energy system. It also offers capabilities for the remote monitoring of individual assets or complete systems, identifying and diagnosing equipment issues in real time, and extending system lifetime.

Competitive situation and price risks

In 2021, competition in the markets where Wärtsilä operates continued to be intense. In Wärtsilä's addressable power plant market, i.e. the market for installations of up to 500 MW, orders for natural gas and liquid fuel power plants totalled 19.2 GW during the twelve-month period ending in September. Wärtsilä's market share was 5%. In the fast-growing energy storage market, Wärtsilä is one of the top-three players alongside Tesla and Fluence. In the marine equipment markets, Wärtsilä has a strong position in 4-stroke medium-speed main engines with a 62% market share in 2021. In auxiliary engines, Wärtsilä's market share was 5%. Price competition remains intense in both the marine newbuild and power plant markets.

As regards servicing the marine and energy markets, in line with the value-based offering concept, Wärtsilä continues to develop its range of lifecycle services and asset management solutions aimed at optimising customer assets over their lifespan. Such long-term service agreements not only ensure asset performance and protection of customer investments, but bring stability to Wärtsilä as a service provider.

Political and legislative risks

Wärtsilä is present in more than 200 locations in 68 countries and has delivered power plants to 180 countries. Political developments and changes in legislation can have a significant impact on

Wärtsilä's business. Wärtsilä actively monitors political and legal developments in its markets and engages in a dialogue with various official bodies on projects of importance to its operations. Much of this engagement takes place through interest groups and trade organisations. The company monitors political and legislative changes at both the corporate and subsidiary levels.

Trade tensions were on the rise globally in 2021, and the increasing uncertainty related to trade relations continues to be a noteworthy risk.

There is increased regulatory activity by different governments worldwide. Wärtsilä's focus is to ensure regulatory compliance or awareness, as appropriate. For example, ongoing and changing trade sanctions are closely monitored and complied with as required.

Climate change and sustainability risks

In October 2021, Wärtsilä announced its "Set for 30" commitment to become carbon neutral in its own operations and to provide a product portfolio ready for zero carbon fuels by 2030. At the beginning of 2021, Wärtsilä updated its sustainability targets which, in addition to carbon neutrality, focus on two long-term themes: enhancing safety, diversity, and wellbeing, as well as being an active and responsible member of society.

Being at the forefront of technological development and decarbonisation efforts in the marine and energy sectors forms a major opportunity for Wärtsilä. Over the years, Wärtsilä has worked continuously to improve the efficiency of its products, while at the same time developing future-proof technologies. Additionally, Wärtsilä offers a variety of retrofittable conversion solutions, allowing customers to follow their own choice of fuel and decarbonisation alternatives. In the energy sector, Wärtsilä's storage solutions, together with the GEMS software, enable customers to integrate and optimise the utilisation of renewable energy sources in their energy systems.

Rapidly evolving environmental regulation drives the demand for enablers of decarbonisation. Risks are mainly related to the complexity of the overall field of different emissions in the marine and energy sectors, the balance between commercially available fuels and their resulting emissions, available abatement technologies, and the resulting financial feasibility of the various alternative ways to meet regulatory demands for decarbonisation.

Wärtsilä has a vast number of suppliers in its global supply chain, with the result that there are potential sustainability and reputational risks related to, for example, non-compliance with human and labour rights obligations, occupational health and safety, and environmental management. Wärtsilä has clear expectations, policies, and procedures for managing these risks.

For more information about sustainability at Wärtsilä, please see the Sustainability section of this report.

Technology risks

Wärtsilä aims to increase the competitiveness of its solutions and to manage technology risks and opportunities through solid R&D efforts and innovation. The development of new products and solutions is aimed at optimising the lifecycle value for customers, as well as at reducing the environmental impact of their operations. This is achieved with modern and sustainable power solutions, such as gas solutions, environmental technologies, hybrid systems, electrical and automation solutions, as well as energy storage and system optimisation solutions.

In 2021, Wärtsilä launched a major testing programme towards carbon-free solutions with hydrogen and ammonia. Wärtsilä is pioneering the adoption of hydrogen and ammonia as viable engine fuels through advanced testing in its fuel-flexible combustion engines. As a technology leader, Wärtsilä places strong emphasis on emissions control, enhancing efficiency and fuel flexibility, and maintaining the cost competitiveness of its products. Connectivity and the utilisation of data to further optimise efficiency and unlock new customer value is becoming an increasingly important element of Wärtsilä's development roadmap.

OPERATIONAL RISKS

Operational risk management is part of the daily work of the businesses. Opportunities and risks are identified, assessed, and managed on a daily basis and reported to, and managed by, the appropriate management level. The status of these opportunities and threats is reviewed periodically, and appropriate further actions are then taken.

Manufacturing risk

Wärtsilä constantly analyses its manufacturing footprint and capacity costs, including costs related to the supply chain. Risk assessments have been made for all the main delivery centres, and significant safety, environmental impact, and risk mitigation investments have been completed. Risk identification, assessment, and mitigation actions are executed on a regular basis as part of operational management. Management systems for quality, environmental, occupational health and safety, and other systems are utilised to improve productivity, while safety and business continuity plans have been implemented for the key delivery centres.

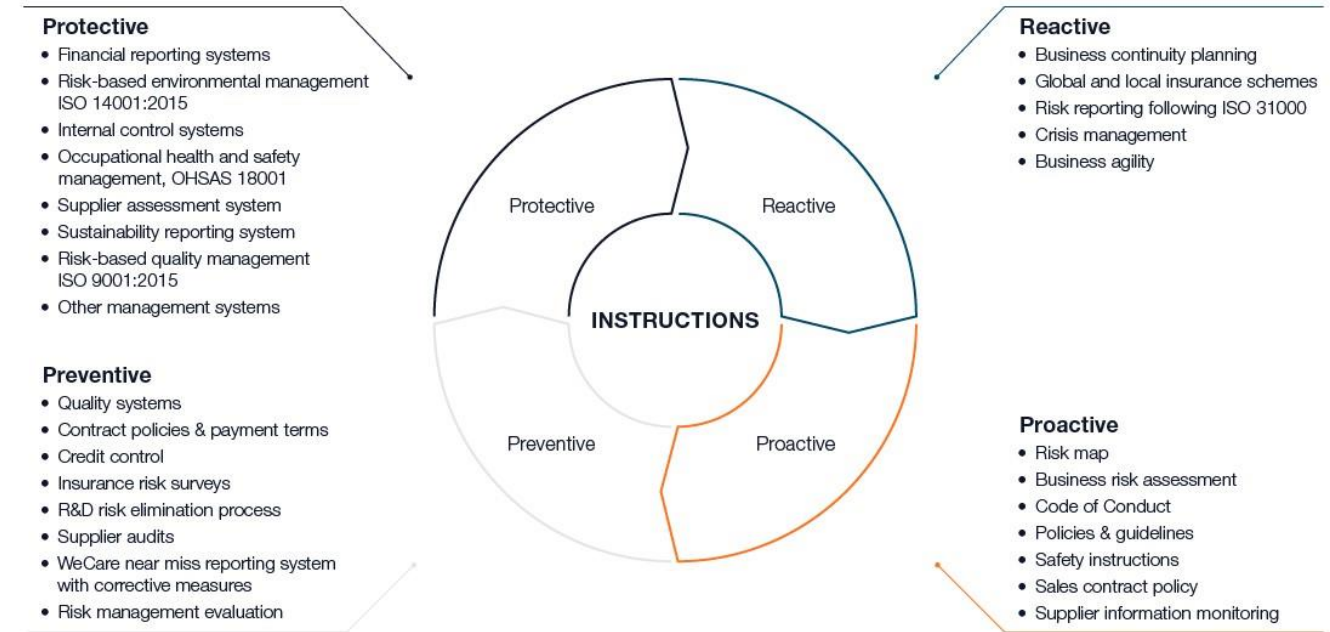
Supplier and subcontractor risk

In 2021, disruptions to global supply chains posed a risk to factory activities and the delivery of spare parts, while having a negative impact on raw material and component prices and availability, as well as transportation costs.

Wärtsilä's supply management is integrated within the businesses. The aim is to work in partnership with the supplier base to create value for Wärtsilä's customers by ensuring quality, on-time delivery, and the lowest total cost of ownership. Category management is in place to ensure coordinated interfaces and synergies for the cross-business supplier base. Indirect Purchasing is a centralised function responsible for managing strategic sourcing activities for indirect materials and services in all businesses and support functions.

Wärtsilä has a process for managing and controlling its supplier network and for verifying that the suppliers' performance meets expectations. Supplier performance is, therefore, continuously measured. A key activity in managing business continuity planning is the regular assessment of business interruption risks, which is carried out in cooperation with the company's suppliers.

RISK MANAGEMENT PROCESS



Wärtsilä has established close collaboration and long-term relationships with its main suppliers. Risks are further mitigated through a comprehensive follow-up of suppliers' credit worthiness. Wärtsilä uses an online solution for supply chain risk identification, assessment, and monitoring. Risks around key components are mitigated through dual- or multi-sourcing when possible.

Lifecycle quality of products and product liability risk

Wärtsilä's quality strategy focuses on preventive and proactive actions to deliver increased customer satisfaction, shorter lead times, and a reduced number of claims. This is delivered by effective project risk management and strengthened awareness and ownership, supported by a streamlined product improvement process.

Several risk management techniques are applied in R&D, including the risk elimination tool FMEA (Failure Modes and Effects Analysis)

and in-house validation testing. Wärtsilä seeks to control quality risks by monitoring the incoming quality of the supply chain, and by designing and manufacturing its products with all due care. A non-destructive robotic ultrasonic data analysis procedure enhances the probability of detecting imperfections in components with a complex geometry.

Wärtsilä applies a GATE model in order to control the product development process. Initially, only a limited release of new products is allowed, and full release authority is given to the sales organisations only after testing and further validation has been completed.

Wärtsilä controls its manufacturing quality risks by applying several assurance and quality control principles. The level of quality assurance and control requirements are determined based on

component criticality, and are applied throughout the delivery chain.

Requirement management is used to assess components systematically, enabling the allocation of resources and efforts according to component criticality. The ranking criteria indicates the consequence if a component fails. The objective is to improve quality proactively within product development, supply management, and the entire delivery process.

Lessons learnt from the sales to delivery process are shared between responsible organisations to continuously improve operations in serving customers, and for minimising risks.

Non-conformity management focuses on developing and improving operations by registering and handling detected non-conformities, ensuring that the products and services received by customers are according to the agreed scope and specifications. Efficient handling, monitoring, and reviewing of non-conformities is crucial for proper risk management and mitigation.

Product improvement management (issue resolution) projects are prioritised based on risk and importance. Such a project is initiated when Wärtsilä identifies a technical issue according to claim statistics, customer feedback, or internal analysis, and the case fulfils the risk categorisation for a non-isolated case.

The businesses support customers in all warranty issues. This offers a feedback loop from the field to production and R&D, while taking care of the customers' installations throughout their lifecycle. Warranty provisions are made to cover any costs that may arise after product delivery. The company's product liability insurance covers unexpected damages.

Best industry practices and good governance are adopted to continuously improve quality. Each business is responsible for the quality of their products, way of working, and services. Management at all levels is responsible for the quality of output from their organisations and is accountable for ensuring that appropriate review and feedback mechanisms are in place.

Wärtsilä's business level quality, environmental management, and occupational health and safety systems are ISO 9001:2015, ISO 14001:2015, and ISO 45001:2018 certified, with an emphasis on proactive risk and opportunity management.

Contractual risks

Wärtsilä's equipment business includes projects and deliveries of various sizes. The most substantial orders concern power plants delivered on a complete EPC (engineering, procurement, and construction) basis, and major marine and energy delivery contracts requiring extensive coordination, efficient risk management, and the integration of contracted systems and solutions.

To avoid unforeseen cost overruns, even in the most complex projects, Wärtsilä puts a strong emphasis on having proper technical assessment controls, supplier approval routines, and internal training programmes in place. With these measures, Wärtsilä aims to ensure the quality of its project execution activities, and the upfront identification of project specific risks and opportunities.

The risk of product liability claims is reduced through the lifecycle quality of the company's products and work. This applies from the initial design and continues through all stages of the production process to the eventual field service activities, as well as the established contract review process.

In activities related to lifecycle support, contractual risk is mainly related to long-term agreements and service projects, such as engine upgrades, retrofits, or modifications. In large-scale performance-based agreements, the recognised contractual risk is related to the ability to manage and maintain assets as planned.

Risk of non-compliance, corruption, and fraud

Wärtsilä complies with the law and its own internal policies and procedures everywhere the company does business. Wärtsilä's Code of Conduct is the key guideline for all employees globally, demanding high ethical standards and integrity.

Wärtsilä is fully committed to complying with anti-corruption laws and regulations. Wärtsilä acts to prevent corruption and does not accept violations of the principles set forth in the Code of Conduct, or in Wärtsilä's Anti-Corruption and Compliance Reporting policies. The company forbids any kind of corruption and bribery and has a strict zero tolerance. There is a whistle-blowing channel in place for reporting misconduct incidents.

Compliance processes are embedded in all of the businesses, and the responsibility for compliance and awareness of ethics and

integrity is that of all Wärtsilä employees. The Compliance function promotes Group-wide compliance and continuously strives to raise awareness of the risk of corruption and bribery and other misconducts.

While being aware of the risk of being subject to fraud by external business parties, and that the risk of corruption and fraud is heightened in many markets where the company operates, Wärtsilä maintains its highly ethical practices at all times. Full compliance with its stringent anti-corruption regime, including policies to prevent the corruption and bribery risk of third parties, is demanded by Wärtsilä.

Commodity price risk

Oil and gas

The direct effect of oil price changes on Wärtsilä's production is limited, with their impact being mainly demand related. Higher oil prices represent a risk for global economic growth and increased operating costs, especially in the shipping markets. However, they also stimulate investments in the exploration and production of oil and gas, both on land and offshore. Furthermore, high oil prices increase investments in gas carriers, gas-based power plants and, increasingly, also in gas-fuelled vessels. Low oil prices can delay investment decisions in oil producing countries and regions, as well as in the offshore industry. Wärtsilä is a global company involved in different shipping and power plant segments where oil price changes can have an opposing impact on demand drivers. This position is further diversified by the increasing importance of natural gas to Wärtsilä's business. In the marine markets, high gas prices or their volatility are not expected to reduce the appetite for LNG as a fuel in the long run. However, persistent high gas prices may encourage ship operators to switch from LNG to low-sulphur fuel, which most modern vessels can use in dual-fuel engines. In the energy markets, gas price volatility and increasing prices may impact the competitiveness of thermal baseload gas plants, but is not expected to have a major impact on thermal balancing power.

Metals and electricity

Metal prices have an indirect effect on the component cost of Wärtsilä's products. Some key components are sourced with long-term contracts, and raw material price volatility is, therefore, limited. Electricity prices have no substantial impact on Wärtsilä's production costs. In the energy markets, high electricity prices support investments in new capacity by utility customers.

HAZARD RISKS

Risks related to health, safety, and environmental hazards

Occupational health and safety systems, travel safety instructions, and crisis management guidelines are aimed at protecting Wärtsilä employees. Appropriate insurances are in place for the personnel, and to emphasise the importance of employee safety, the Board of Management has decided on a corporate level target of zero lost-time injuries, which is included in the company's sustainability programme.

Throughout the Covid-19 pandemic, a crisis response team has been working to ensure the continuity of Wärtsilä's business and operations in a safe manner, focusing on employee safety, both in-house and while visiting customer sites, when travelling, and while working remotely.

Environmental management systems are in place to mitigate environmental hazard risks. Wärtsilä maintains a register of all properties used and gives guidelines for the purchase, sale, rental, and security of premises, and uses external advisors for environmental audits. None of Wärtsilä's major facilities are located in natural disaster areas. Catastrophic peril related scenarios are identified and, where necessary, exposures are mitigated by, for example, elevating sites above the flood risk level or by constructing flood dikes. Business impact analyses and continuity plans have been made for the main sites to address property and business interruption risks.

Cyber and information security related risks

Wärtsilä has an internal organisation dedicated to the effective management of cyber security risks across Wärtsilä's portfolio. This organisation, in cooperation with Wärtsilä's businesses, delivers cyber security operational support. It also provides the associated governance, risk management, and assurance required to support and enable safe and secure internal operations, while ensuring that the businesses' customer offerings are aligned with the relevant current and future regulations and applicable standards.

The Wärtsilä cyber security governance model is closely aligned with overall business risk management and supports the businesses and support functions in identifying and prioritising their respective cyber security risks. The cyber security team works with physical security colleagues across Wärtsilä to ensure the effective

and coordinated delivery of holistic security solutions for both the cyber and physical domains.

Information security risks related to Wärtsilä's internal operations are continually identified, analysed, and evaluated. The attendant mitigation activities are executed across Wärtsilä's networks, endpoints, systems, and services. The 24/7 Wärtsilä Security Operations Center continually monitors the perimeter to internal systems and closely observes the external threat exposure level, whilst providing a coordinated response to identified information security incidents, as and when they may occur.

The effective mitigation of risks associated with cyber security hygiene throughout Wärtsilä is continually and progressively reinforced through coordinated and complementary cyber security training, awareness initiatives, and extensive communications. This involves all Wärtsilä businesses and corporate functions.

Wärtsilä has identified the need to mitigate the cyber security risks associated with its supply chain. The company is addressing this need through a comprehensive risk-based third party risk management programme, involving both increased opportunities for the remote and objective assessment of suppliers, as well as the continuous monitoring of supply chain cyber security risk.

It should be noted that Wärtsilä's energy storage business has obtained the cyber security certification IEC62443, thus meeting the typical requirement for the energy industry.

Privacy and data protection risks

The EU's General Data Protection Regulation (GDPR) sets out the general framework for Wärtsilä's data protection, which is applied both inside and outside the European Economic Area. Wärtsilä is a global company with operations in 68 countries, and efforts are made to comply with local laws and regulations.

Wärtsilä has global privacy notices to inform its personnel, customers, vendors, other stakeholders, and interest groups about the processing of personal data. Data protection implementation is supported by, and aligned with, group-wide privacy policies and processes. Wärtsilä ensures an adequate level of employee data protection competencies with mandatory GDPR training, tailored training and awareness sessions for specific employee groups, and comprehensive guidance materials.

Wärtsilä applies a risk-based approach to privacy and data protection and continues to take further actions to strengthen privacy and data protection implementation in order to mitigate risks by accountability, privacy by design, data minimisation and transparency.

A data transfer tool has been developed and implemented to allow the secure transfer of data with customers. Wärtsilä continues to invest in the development of data protection platforms to support data protection management and implementation.

The risks that Wärtsilä is unable to influence through its own efforts are transferred, whenever possible, to insurance companies.

Wärtsilä uses appropriate insurance policies to cover indemnity risks related to its personnel, assets, and business interruptions, including supplier triggered interruptions, as well as third-party and product liability. Wärtsilä has its own captive insurance company, Vulcan Insurance PCC Ltd for insuring Wärtsilä's own risks. For insurance technical reasons, the company is located on the island of Guernsey. Vulcan Insurance PCC Ltd's results are consolidated into the corporation's books and are subject to normal taxation in Finland.

FINANCIAL RISKS

Wärtsilä's financial risks are presented in the notes to the financial statements, Note 5.8.

WHICH INSURANCES COVER OUR BUSINESS?

Business operation Design } Sourcing } Transportation } Manufacturing } Transportation } Construction & erection } Operation & maintenance

Risk management

Everyone is responsible

Policies, guidelines, management and reporting systems, business continuity plans

General third party and product liability + professional indemnity insurance

Insurance














Cyber insurance

Professional indemnity insurance } Business interruption insurance } Cargo (transportation) insurance } Property insurance } Cargo (transportation) insurance } Construction/erection all risk insurance (CAR/EAR) } Property insurance for owner/buyer









Both risk management work and casualty insurance cover Wärtsilä's products over their entire lifecycle.

Risk profiles and responsibilities

Low  High 

Risks	Risk profile	Policy or other guideline	Responsible body
Strategic risks		Wärtsilä's strategy and business plans	Wärtsilä's Board of Directors (BoD), Board of Management (BoM), and businesses
Business environment risk		Wärtsilä's strategy and business plans	BoM and businesses
Market and customer risk		Wärtsilä's strategy and business plans	BoM and businesses
Competitive situation and price risk		Wärtsilä's strategy and business plans	BoM and businesses
Political, geopolitical, and legislative risk		Various guidelines and risk management policy	Businesses, R&D, Risk management (RM) and Legal functions
Climate change and sustainability risk		Quality, environmental, health and safety policy, Code of Conduct, management systems (ISO 14001 & OHSAS 18001)	Businesses, R&D and Sustainability function
Technology risk		Patents and industrial rights, product guarantees	Businesses and R&D
Operational risks		Wärtsilä's strategy and business plans	BoM and businesses
Manufacturing risk		Production systems, business continuity plan	Manufacturing and businesses
Supplier and subcontractor risk		Supplier requirement and supplier management system, business continuity plan	Businesses and Supply Management
Lifecycle quality of products and product liability risk		Management system (ISO 9001), safety instructions and manuals, risk management policy, R&D risk elimination instructions	Manufacturing, R&D, businesses, RM, Quality, and Legal functions
Contractual risks		Standard contracts, corporate sales contracting policy	Legal function and businesses
Commodity price risk, direct		Production cost control, sourcing policy, sales contract policy	Businesses and Treasury function
Commodity price risk, indirect		Production cost control, sourcing policy, sales contract policy	Businesses
Non-compliance risk		Code of Conduct, Anti-Corruption policy, Compliance policy, whistle-blowing channel	Businesses and Compliance function

Low  High

Risks	Risk profile	Policy or other guideline	Responsible body
Hazard risks		Risk management policy and guidelines	Businesses and RM function
Personnel risk		Management system (OHSAS 18001), travel safety instructions, crisis management guidelines, near-miss reporting and premises safety plans	Businesses, Human Resources, RM, as well as Environment, Health and Safety and Security functions
Natural catastrophes		Crisis management guidelines, business continuity plan	Businesses, RM and Security functions
Fire, cargo, and other accidents		Management systems (ISO 14001 & OHSAS 18001), premises safety plans	Businesses, RM and Real Estate functions
Data security risk		Data security principles and cyber security strategy	Businesses and Information Management & Cyber Security function
Data protection, privacy		Data protection principles and policy	Businesses and Data Protection function
Financial risks		Wärtsilä's strategy and business plans	Businesses and Treasury function
Foreign exchange risk		Treasury policy	Businesses (own) and Treasury function (group)
Interest rate risk		Treasury policy	Treasury function
Liquidity and refinancing risk		Treasury policy	Treasury function
Credit risk		Credit and treasury policy	Businesses and Treasury function

FINANCIAL REVIEW

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).

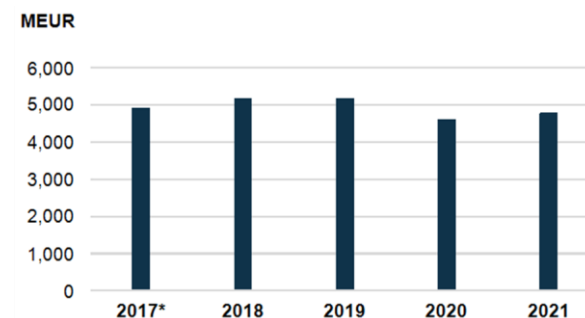
Financing and cash flow

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

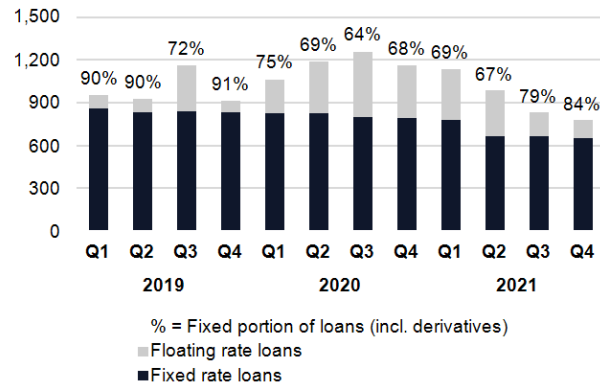
Megawatts delivered

	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%

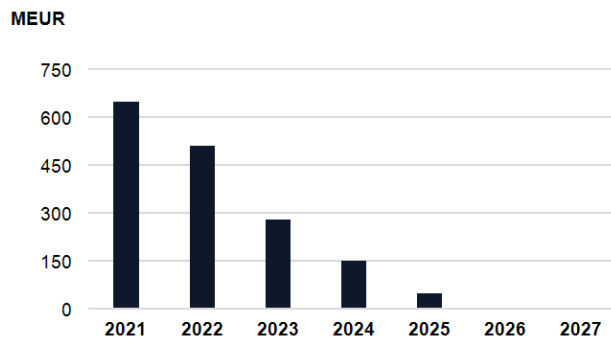
Wärtsilä had interest-bearing debt totalling EUR 973 million at the end of the year (1,327). The total amount of short-term debt maturing within the next 12 months was EUR 121 million. Long-term loans amounted to EUR 851 million.

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).

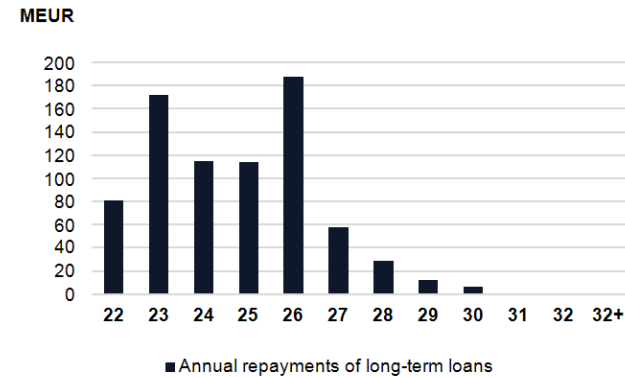
Loans



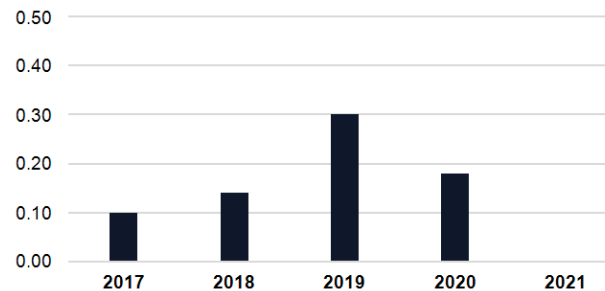
Committed revolving credit facilities (end of period)



Maturity profiles of long-term loans



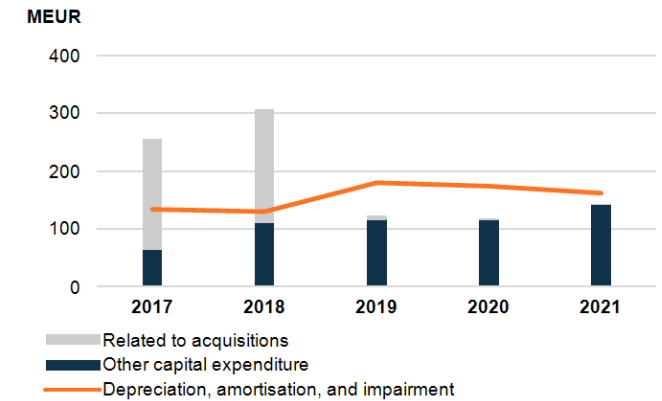
Gearing



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.

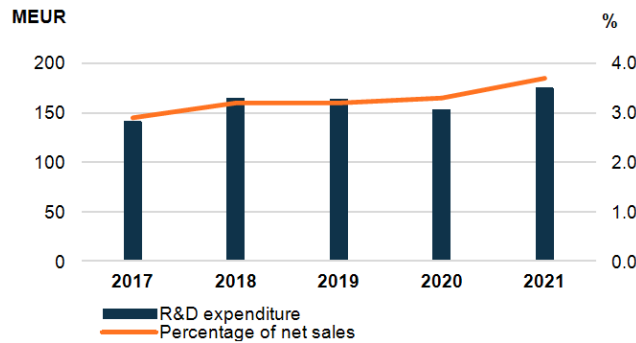
In August, Wärtsilä introduced an upgraded version of its successful Wärtsilä 20DF dual-fuel engine. The new version will deliver increased power output, have a reduced environmental impact, and will feature lower fuel consumption. It will also further increase the engine's fuel flexibility by allowing 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.

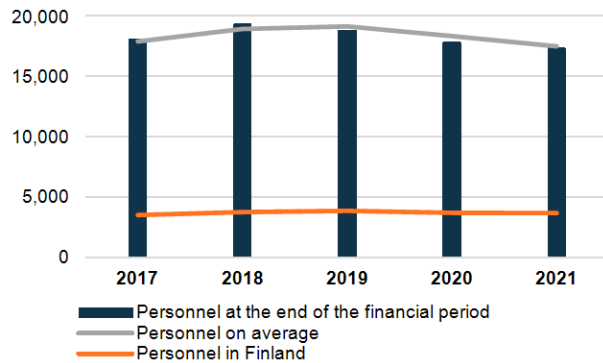
In November, Wärtsilä Voyage signed a landmark agreement with the Maritime and Port Authority of Singapore (MPA) to further strengthen their collaboration in smart port innovation and digitalisation. The main objectives of this strategic partnership are to initiate, develop, and promote innovative solutions 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

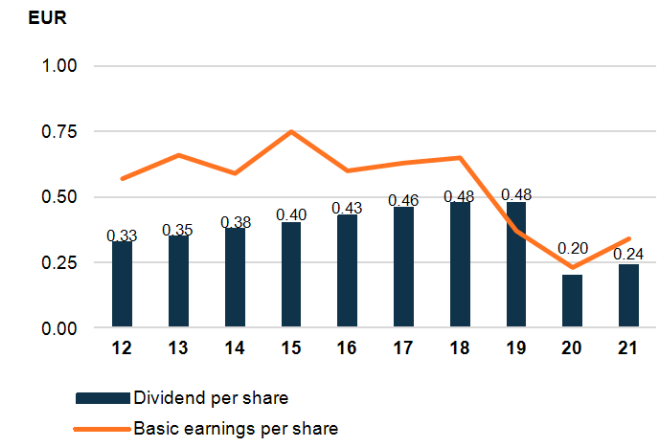
The Board of Directors proposes that a dividend of EUR 0.24 per share be paid for the financial year 2021. The parent company's distributable funds total EUR 1,025,711,618.25, which includes EUR 188,242,150.86 in net profit for the year. There are 590,023,390 shares with dividend rights. The dividend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

MEUR	Restated				
	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.
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	
Assets held for sale	2	99	6.3.
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	
Liabilities directly attributable to assets held for sale		68	6.3.
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

MEUR	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 1 January 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	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 1 January 2020	336	61	-114	-11	-55	2,178	2,396	14	2,410
Translation differences			-76				-76	-1	-77
Translation differences, transferred to statement of income			-6				-6		-6
Cash flow hedges									
net change in fair value, net of taxes				-3			-3		-3
transferred to the statement of income, net of taxes				5			5		5
Defined benefit plans					5		5		5
Other changes					5	-5			
Other comprehensive income			-82	2	10	-5	-75	-1	-76
Profit for the financial period						134	134	-1	133
Total comprehensive income for the financial period			-82	2	10	129	59	-1	57
Dividends paid						-284	-284	-2	-286
Other changes						7	7		7
Equity on 31 December 2020	336	61	-197	-9	-45	2,030	2,177	11	2,188

Additional information on share capital, share premium, translation difference and fair value reserve is presented in Note 5.5. Equity.

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



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				-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

MEUR	Net against fixed sales and purchase contracts	2021		2020	
		Against net loans	Net against fixed sales and purchase contracts	Against net loans	Net against fixed sales and purchase contracts
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		2021		2020
Year	Maturing	Available (end of period)	Maturing	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
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
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.

MEUR	Debt in the statement of financial position	2021		2020	
		Collateral	Debt in the statement of financial position	Collateral	Debt in the statement of financial position
Mortgages given as collateral for liabilities and commitments					
Other commitments	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					
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

TEUR	Benefits recognised in the statement of income	
	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	3,543	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	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

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

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		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			-5

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

Revenue recognition of long-term contracts

Refer to the consolidated financial statements note 2.2.

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

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

Revenue recognition of long-term contracts is a key audit matter in the

How our audit addressed the key audit matter

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 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

audit due to the high level of management judgement involved in the project estimates.

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

Our audit focused on assessing the reasonableness of the determination of cash generating units, which forms the basis for the goodwill impairment testing and assessing the appropriateness of management's judgments and estimates used in the goodwill impairment analysis. Our procedures relating to the impairment analysis included the following:

- We tested the methodology applied in the goodwill impairment analysis as compared to the requirements of IAS 36, Impairment of Assets
- We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to the latest Board approved targets and long-term plans
- 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, 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.

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
- 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)

WÄRTSILÄ IN THE CAPITAL MARKETS

SHARES AND SHAREHOLDERS

Wärtsilä Corporation's shares are listed on the Nasdaq Helsinki Large Cap list under the trading code WRT1V. At the end of the financial period 2021, the number of Wärtsilä's shares outstanding totalled 590,023,390, while the number of treasury shares totalled 1,700,000. The total number of shares amounted to 591,723,390. The share capital entered in the trade register was EUR 336,002,138.50. Wärtsilä has one share series, with each share entitling its holder to one vote at the General Meeting and to an equal dividend.

Trading in Wärtsilä's shares in 2021

The price of Wärtsilä's share on Nasdaq Helsinki increased by 51.7%, while the OMX Helsinki Industrials and the OMX Helsinki Cap indices increased by 19.2% and 17.4%, respectively. The highest quoted price for Wärtsilä's share during the financial period was EUR 13.87 and the lowest EUR 7.78. The closing price on 31 December 2021 was EUR 12.36. The volume weighted average price for the year was EUR 10.51. At year-end, Wärtsilä's market capitalisation was EUR 7,314 million. The volume of trades on Nasdaq Helsinki was 433,886,295 shares, equivalent to a turnover of EUR 4,561 million. Wärtsilä's shares are also traded on alternative exchanges, including Turquoise, BATS CXE, and BATS BXE. The total trading volume on these alternative exchanges amounted to 32,692,101 shares. Further information on the company's share price development can be found on Wärtsilä's website at www.wartsila.com/investors/shares.

Key figures for Wärtsilä share

		2021	2020	2019	2018	2017
Basic earnings per share (EPS)*	EUR	0.33	0.23	0.37	0.65	0.63
Book value of equity per share*	EUR	3.92	3.68	4.05	4.09	3.97
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
Dividend yield	%	1.9**	2.5	4.9	3.5	2.6
Price per earnings (P/E)		37.5	35.4	26.6	21.4	27.0
Price to book value (P/BV)		3.2	2.2	2.4	3.4	4.4
Adjusted number of shares outstanding*	X 1,000					
End of financial year		590,023	591,723	591,723	591,723	591,723
On average		590,579	591,723	591,723	591,723	591,723

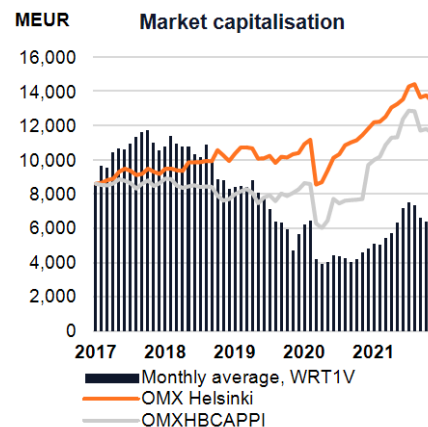
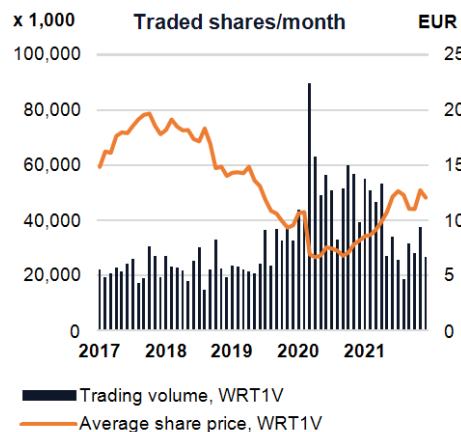
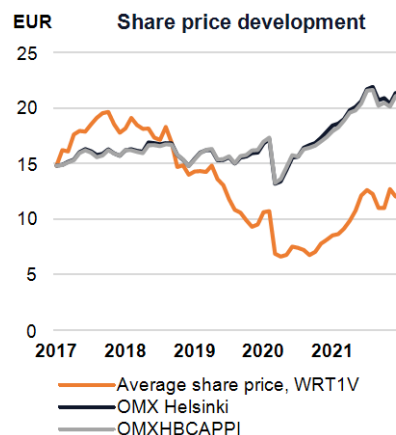
* The figures in the comparison period 2017 have been restated to reflect the increased number of shares.

** Proposal of the Board of Directors

Wärtsilä shares on Nasdaq Helsinki

		2021	2020	2019	2018	2017
Trading volume	MEUR	4,561	4,865	3,947	4,754	4,800
Number of shares traded*	X 1,000	433,886	635,450	333,484	278,938	268,222
Stock turnover	%	70.0	104.6	55.0	47.1	45.3
Share price, high*	EUR	13.87	12.00	15.56	19.88	20.77
Share price, low*	EUR	7.78	5.01	8.78	12.75	13.97
Average share price*	EUR	10.51	7.66	11.82	17.04	17.90
Share price at year-end*	EUR	12.36	8.15	9.85	13.90	17.53
Year-end market capitalisation	MEUR	7,314	4,823	5,828	8,222	10,375

* The figures in the comparison period 2017 have been restated to reflect the increased number of shares.



**Ownership structure
31 December 2021**



- Nominee registered, 34.4% (32.4)
- Households, 21.9% (23.2)
- Outside Finland, 18.3% (18.4)
- Public sector entities, 11.2% (11.7)
- Non-profit organisations, 6.7% (6.8)
- Banks and insurance companies, 4.2% (4.3)
- Private corporations, 3.3% (3.3)

Shareholders

Wärtsilä had 104,278 shareholders at the end of the financial period 2021. Foreign shareholding, including nominee registered shares, represented 52.7% (50.7) of the total shareholder base at the end of the period, while Finnish retail investors represented 21.9% (23.2). Investors in Sweden, the United States, and the United Kingdom held the largest percentage of foreign shares. Further information on the company's shareholder base development can be found on Wärtsilä's website at www.wartsila.com/investors/shareholders.

Ownership structure on 31 December 2021

Group	Number of shareholders	%	Number of shares	%
Private corporations	3,076	3.0	19,780,008	3.3
Banks and insurance companies	116	0.1	25,034,838	4.2
Public sector entities	40	0.0	66,038,082	11.2
Non-profit organisation	924	0.9	39,376,316	6.7
Households	99,561	95.5	129,497,098	21.9
Outside Finland	561	0.5	108,414,476	18.3
Nominee registered			203,582,572	34.4
Total	104,278	100.0	591,723,390	100.0

Division of shares on 31 December 2021

Number of shares	Number of shareholders	%	Number of shares	%
1-100	36,263	34.8	1,625,858	0.3
101-1,000	46,469	44.6	18,563,246	3.1
1,001-10,000	19,014	18.2	56,557,538	9.6
10,001-100,000	2,328	2.2	56,093,845	9.5
100,001-1,000,000	176	0.2	47,950,199	8.1
1,000,001-10,000,000	25	0.0	55,544,014	9.1
10,000,001-100,000,000	2	0.0	47,094,755	8.0
100,000,001-	1	0.0	104,711,363	17.7
Nominee registered			203,582,572	34.7
Total	104,278	100.0	591,723,390	100.0

Wärtsilä's 50 major shareholders on 31 December 2021, excluding nominee registered

Owner	Shares	%
1 Invaw Invest AB	104,711,363	17.7
2 Varma Mutual Pension Insurance Company	31,768,252	5.4
3 Ilmarinen Mutual Pension Insurance Company	15,326,503	2.6
4 Elo Mutual Pension Insurance Company	7,127,922	1.2
5 The Social Insurance Institution of Finland	5,517,730	0.9
6 Svenska litteratursällskapet i Finland rf	5,171,277	0.9
7 State Pension Fund	4,020,000	0.7
8 Holdix Oy Ab	3,275,000	0.6
9 Jenny and Antti Wihuri Foundation	2,700,000	0.5
10 Sigrid Jusélius Foundation	2,374,505	0.4
11 The Finnish Cultural Foundation	2,216,192	0.4
12 Sijoitusrahasto Evli Eurooppa	2,208,957	0.4
13 Holding Manutas Oy	1,710,000	0.3
14 Wärtsilä Corporation	1,700,000	0.3
15 Nordea Pro Finland Fund	1,675,001	0.3
16 Oy Ingman Finance Ab	1,640,000	0.3
17 Rantanen Tuula Anneli	1,523,798	0.3

18 Samfundet Folkhälsan i Svenska Finland rf	1,434,600	0.2
19 The Signe and Ane Gyllenberg foundation	1,225,000	0.2
20 Turret Oy Ab	1,175,000	0.2
21 Veritas Pension Insurance Company Ltd	1,160,000	0.2
22 Louise och Göran Ehrnrooth Stiftelse	1,143,642	0.2
23 Bergsrådinnan Sophie von Julins Stiftelse	1,129,518	0.2
24 Op-Suomi -sijoitusrahasto	1,110,965	0.2
25 Becasse AS	1,098,891	0.2
26 Sijoitusrahasto Seligson & Co	1,096,740	0.2
27 Säästöpankki Kotimaa -sijoitusrahasto	1,085,676	0.2
28 Folkhälsan i Svenska Finland rf Inez och Julius Polins Fond	1,023,600	0.2
29 Maa- ja Vesitekniiikan Tuki ry	1,000,000	0.2
30 Brita Maria Renlund Foundation	1,000,000	0.2
31 Sijoitusrahasto Evli Suomi Select	980,000	0.2
32 Security Trading Oy	900,000	0.2
33 Danske Invest Finnish Equity Fund	830,000	0.1
34 Gripenberg Gerda Margareta Lindsay Db	826,000	0.1
35 Stockmann Marita	813,678	0.1
36 Sijoitusrahasto Aktia Capital	800,000	0.1
37 Nordea Henkivakuutus Suomi Oy	738,593	0.1
38 William Thuring's Stiftelse	724,550	0.1
39 Op-Henkivakuutus Oy	712,174	0.1
40 Von Fieandt Berndt Johan	706,146	0.1
41 Von Julin Sofia Margareta Db	688,000	0.1
42 Fromond Anna Gabrielle	686,400	0.1
43 Oppiva Invest Oy	680,300	0.1
44 Op-Suomi Indeks -sijoitusrahasto	654,013	0.1
45 Folkhälsans Forskningsstiftelse - Kansanterveyden tutkimussäätiö	639,404	0.1
46 Nordea Finnish Passive Fund	636,653	0.1
47 S-Bank Fenno Equity Fund	623,664	0.1
48 Fromond Lilli Sophie Louise	590,854	0.1
49 Ella and Georg Ehrnrooth Foundation	553,161	0.1
50 Markkola Leena	546,500	0.1
Total	223,680,222	37.8

Changes in ownership

Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the listed company of changes in their holdings when crossing predefined thresholds. Wärtsilä did not receive any flagging notifications in 2021. Further information can be found on Wärtsilä's website at www.wartsila.com/investors/shareholders/flaggings.

Management holdings

The members of the Board of Directors, the President & CEO, and the corporations under their control, owned altogether 204,105 shares in Wärtsilä Corporation at the end of 2021, which represents 0.03% of the stock and voting rights. Further details on the Board of Directors' and Board of Management's ownership of Wärtsilä's shares can be found in the Governance section.

Authorisations granted to the Board of Directors

The Annual General Meeting, held on 4 March 2021, authorised the Board of Directors 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.

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.

The Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 0.24 euro per share be paid for the financial year 2021. The dividend will be paid in two instalments of 0.12 euro each.

WÄRTSILÄ'S INVESTOR RELATIONS ACTIVITIES

Meetings and events

Wärtsilä's Investor Relations team, consisting of the CEO, CFO, Vice President for Investor Relations, Investor Relations Manager, and Investor Relations Specialist participated in over 150 investor meetings during the year 2021. The team also maintained regular contact with equity research analysts throughout the year.

Wärtsilä's Capital Markets Day 2021 was held in November in Helsinki. During the event, Wärtsilä's President & CEO Håkan Agnevall together with members of the Board of Management provided information on the company's business operations, the strategic themes of Transform and Perform, and the roadmap to reach the new financial targets. The event was well-appreciated by almost 900 participants both online and at Wärtsilä's headquarters.

The Investor Relations team conducted meetings with institutional investors in North America, the United Kingdom, continental Europe, and in the Nordic countries. The team held roadshows on 16 days and attended five investor conferences. Due to the Covid-19 pandemic and travel restrictions, most of the meetings, roadshows, and conferences were conducted with audio and/or video conferencing tools.

Contacts

Relations with the company's investors and analysts are handled by Hanna-Maria Heikkinen, Vice President, Investor Relations, together with the Investor Relations team. General enquiries can be sent to investor.relations@wartsila.com. Janine Tourneur, Executive Assistant takes care of all investor meeting requests.

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Wärtsilä's corporate communications are the responsibility of Atte Palomäki, Executive Vice President, Communications, Branding & Marketing.

Atte Palomäki

Executive Vice President, Communications, Branding & Marketing

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WÄRTSILÄ'S INVESTOR RELATIONS GUIDELINES

The ultimate objective of Wärtsilä's Investor Relations is to produce accurate, sufficient, and up-to-date information regarding the development of Wärtsilä's business operations, strategy, markets, and financial position. This is to ensure that the capital markets have the relevant information concerning Wärtsilä in order to determine the fair value of the company's shares. To achieve this objective, Wärtsilä publishes annually two interim reports, a half-year financial report, a financial statements bulletin, an annual report, and stock exchange releases. Furthermore, Wärtsilä's management conducts regular discussions with analysts and investors, both in Finland and abroad. Wärtsilä's website serves as an archive for all current and historical data on factors affecting the value of its shares.

Prospects

Guidance on Wärtsilä's prospects is published in the financial statements bulletin, in the half-year financial report, and in the interim reports. The most recently published prospect statement is repeated in the annual report. The prospect statement consists of expectations regarding demand development in Wärtsilä's markets and is approved by the Board of Directors. Wärtsilä does not publish quarterly result forecasts. Should there be a change in business circumstances that could affect the prospects, Wärtsilä will publish the prospect changes in accordance with prevailing regulations.

Analyst reports

Wärtsilä will review, upon request by an analyst, his or her earnings model or report only for factual accuracy, or for information that is in the public domain. Wärtsilä does not comment on, or take any responsibility for, estimates or forecasts published by capital market representatives.

Silent period

Wärtsilä observes a three-week silent period preceding the publication of its results to prevent the revealing of unpublished financial information. During this period, the company's representatives do not meet with investors or analysts or comment on its financial position.

Disclosure policy and financial communications

Wärtsilä discloses information on its targets, financial position, and business operations in an open, timely, truthful, and systematic manner so as to enable stakeholders to form a true and fair view of the company. Wärtsilä publishes stock exchange releases, press releases, and trade press releases. Wärtsilä's subsidiaries publish press releases with local relevance.

Matters that contain inside information and may have a material impact on the value of the company's financial instruments are published as stock exchange releases. Press releases contain information on events relating to Wärtsilä's normal business operations, which are assessed to be of general interest for investors and media. Releases to the trade press provide more detailed information on Wärtsilä's products and technologies. All stock exchange releases are published in Finnish and English. Press releases are published in English and can also be published in Finnish. Trade press releases are published in English, and local releases in the local language. All releases are available on Wärtsilä's website immediately following publication.

INFORMATION FOR SHAREHOLDERS

ANNUAL GENERAL MEETING

The Annual General Meeting of Wärtsilä Corporation will take place on Thursday, 3 March 2022, beginning at 3 p.m., at the Company's headquarters (Hiililaiturinkuja 2, 00180 Helsinki, Finland). The shareholders of the Company may participate in the meeting and exercise their shareholder rights only by voting in advance and by presenting counterproposals and asking questions in advance. It is not possible to participate in the meeting in person at the meeting venue.

Right to attend

Shareholders registered no later than 21 February 2022 in the company's list of shareholders maintained by Euroclear Finland Oy have the right to attend the Annual General Meeting.

Registration and advance voting

A directly registered shareholder, who is registered in the shareholders' register of the Company and who wants to participate in the general meeting must register for the meeting and vote in advance by 25 February 2022 at 4 p.m. EET by which time the registration shall be completed and votes need to be received.

Instructions relating to the advance voting can be found on the Company's website at www.wartsila.com/agm before advance voting begins on 15 February 2022 at 10 a.m.

A shareholder may participate in the general meeting and exercise his/her rights at the meeting by way of proxy representation. The proxy representative is also required to vote in advance. Proxy and voting instruction templates are available on the Company's website at www.wartsila.com/agm on 15 February 2022 at 10 a.m. EET at the latest.

The proxy documents shall be delivered by e-mail to agm@innovatics.fi or mailed or delivered as originals to Innovatics Ltd, Yhtiökokous/Wärtsilä, Ratamestarinkatu 13 A, 00520 Helsinki, Finland before the end of the advance voting period.

Nominee registered shareholders are advised to contact their custodian banks without delay to get registered in the temporary shareholders' register by 28 February 2022 at 10 a.m. EET.

PAYMENT OF DIVIDEND

The Board of Directors proposes that a dividend of EUR 0.24 per share be paid for the financial year 2021. 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.

STOCK EXCHANGE RELEASES

Wärtsilä's stock exchange releases are available in English and Finnish on Wärtsilä's website at www.wartsila.com/media/news-releases.

FINANCIAL CALENDAR 2022

Annual Report 2021 on Wednesday, 9 February 2022

Interim Report January-March 2022 on Thursday, 28 April 2022

Half-year Financial Report January-June 2022 on Thursday, 21 July 2022

Interim Report January-September 2022 on Tuesday, 25 October 2022

Financial Statements Bulletin January-December 2022 on Tuesday, 31 January 2023

Annual reports, interim reports, half-year reports, and financial statements bulletins are available in English and Finnish on Wärtsilä's website at www.wartsila.com. Wärtsilä's financial calendar can be found on the company's investor pages on www.wartsila.com/investors.

CONTACT US

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WEBSITE

www.wartsila.com

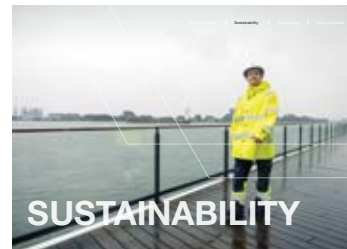
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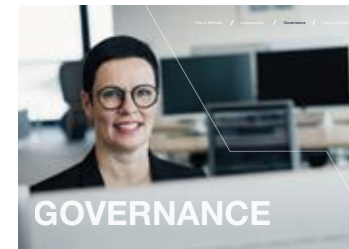
Wärtsilä Annual Report 2021



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Sustainability



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Financial review



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