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 2019. 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 32 to the Financial Statements.
Our Audit Approach

Overview

- We have applied an overall group materiality of € 24 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.

<table>
<thead>
<tr>
<th>Overall group materiality</th>
<th>€ 24 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>How we determined it</td>
<td>5 % of profit before tax (five-year average)</td>
</tr>
<tr>
<td>Rationale for the materiality benchmark applied</td>
<td>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.</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Key audit matter in the audit of the group</th>
<th>How our audit addressed the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue recognition of long-term contracts</td>
<td>Our revenue testing included both testing of the company’s controls, as well as substantive audit procedures targeted at selected major long-term projects. Our substantive testing focused on estimates applied by management in the accounting. Our procedures included, among others things, the following:</td>
</tr>
<tr>
<td></td>
<td>• Ensured that the revenue recognition method applied was appropriate based on the terms of the arrangement;</td>
</tr>
<tr>
<td></td>
<td>• Agreed the total project revenue estimates to sales agreements, including amendments as appropriate;</td>
</tr>
<tr>
<td></td>
<td>• We obtained an understanding of the processes and tested relevant controls, which impact the revenue recognition;</td>
</tr>
<tr>
<td></td>
<td>• We assessed the reliability of management’s estimates by comparing the actual results of delivered projects to previous estimates;</td>
</tr>
<tr>
<td></td>
<td>• We challenged the management estimates and assumptions in projects, which were considered to include specific risk factors; and</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
</tbody>
</table>

Valuation of goodwill

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
Goodwill is one of the most significant balance sheet items and amounts to €1,380 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.

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; and
- We considered whether the sensitivity analysis performed by the management around key assumptions of the cash flow forecast was appropriate by considering the likelihood of the movements of these key assumptions.

Valuation of trade receivables

Refer to accounting policies for the consolidated financial statements and notes 18, 20 and 33. Net trade receivables amount to €1,256 million, including an impairment provision of €61 million. The trade receivables include €19 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; and
- We obtained a list of long outstanding receivables and assessed the recoverability of these through inquiry with management and by obtaining sufficient corroborative evidence to support the conclusions.

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 three 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 7 February 2020

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Merja Lindh
Authorised Public Accountant (KHT)