

REMUNERATION REPORT 2020

REMUNERATION POLICY AT A GLANCE

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

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

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

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

2020 REMUNERATION AT A GLANCE

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

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

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

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

1. INTRODUCTION

1.1. Letter from the Chair of the People Committee

Dear Shareholders,

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

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

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

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

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

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

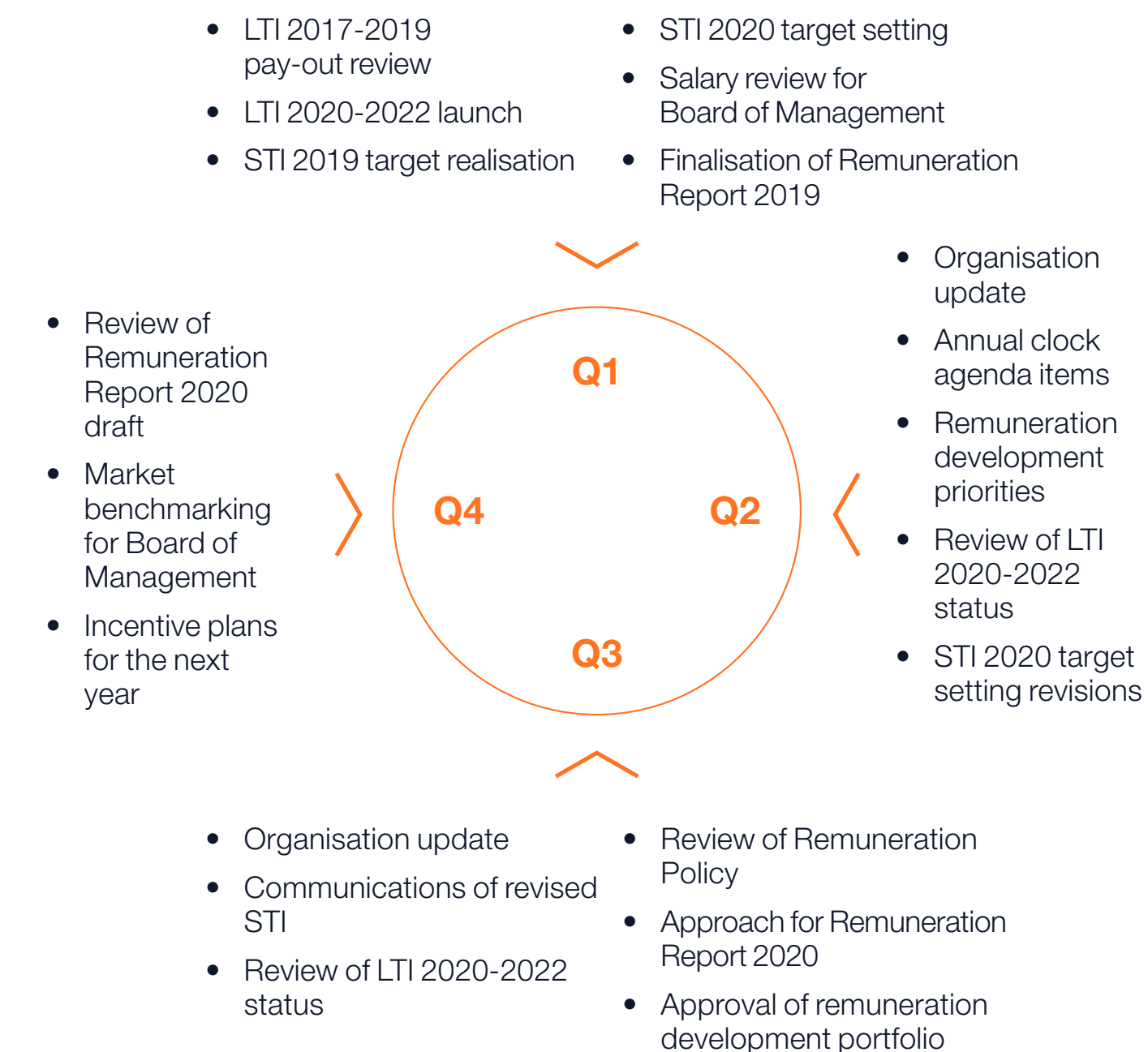
Wärtsilä's long-term incentive scheme ("LTI"), launched in 2018, is based on share price development and the performance period was concluded at the end of 2020. As a result of the share price development during the period, there will be no pay-out for the scheme. During the year 2020, the Committee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

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



Maarit Aarni-Sirviö
Chair of the People Committee

PEOPLE COMMITTEE ANNUAL CLOCK 2020



People Committee members' meeting participation in 2020

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

1.2 Remuneration and Company performance

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

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

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

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



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

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

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

Five-year development of remuneration and Company performance

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

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

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

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

1.3 Any deviations or clawbacks made

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

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

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

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

2. REMUNERATION OF THE BOARD OF DIRECTORS FOR 2020

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

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

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

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

Fees paid to the members of the Board in 2020

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

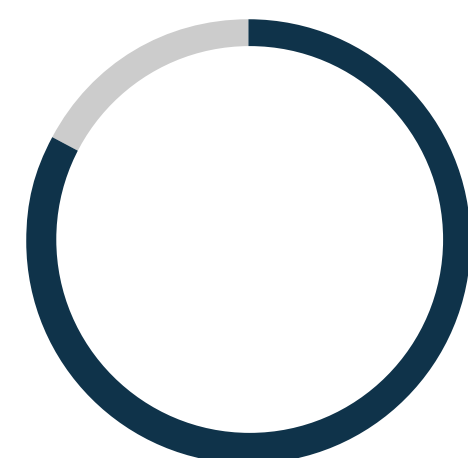
* Attendance fees also include committee fees.

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

3. REMUNERATION OF THE CEO FOR 2020

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

Actualised CEO remuneration 2020



Fixed pay: 100%
Variable pay: 0%

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

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

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

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