



Wärtsilä Corporation
Annual Report 2016

Governance

Governance

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Corporate governance

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 the NASDAQ OMX Helsinki Stock Exchange. Wärtsilä also applies the Global Reporting Initiative's G4 Sustainability Reporting Guidelines and complies with the Finnish Corporate Governance Code 2015 ("Code") issued by the Finnish Securities Market Association. The Code is publicly available on <http://cgfinland.fi/en/>. Wärtsilä has not deviated from any of the Code's recommendations.

Wärtsilä's Corporate Governance Statement, prepared in accordance with the recommendations of the Code, is also published as a separate statement on Wärtsilä's website as well as in this Annual Report. The content of this Corporate Governance section corresponds fully to Wärtsilä's Corporate Governance Statement. Wärtsilä's Audit Committee has reviewed the Corporate Governance Statement, and the Company's external auditor has monitored the issuing of the statement and 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, matches the Financial Statements.

Governing bodies

Wärtsilä implements a single-tier governance model, by which management of the Wärtsilä Group is the responsibility of the General Meeting of shareholders, the Board of Directors, and the President & CEO. Their duties are for the most part defined by the Finnish Companies Act. The General Meeting of shareholders elects the Board of Directors and auditors. The Board of Directors is responsible for the strategic management of the company. The Board appoints the President & CEO, who is in charge of the operative, day-to-day management of the company. He is assisted in his work by the Board of Management.

Governing bodies



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. These include:

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

A General Meeting of Wärtsilä Corporation shareholders 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 not less than 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 invitations to its General Meetings as stock exchange releases. 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 sufficient time if the Board has been notified of the demand at the latest 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 holders to one vote. The General Meeting is organised in such a manner that shareholders can participate in the meeting as extensively as possible. The Chairman of the Board of Directors, the members of the Board of Directors, and the President & CEO are present at the General Meeting. The auditor-in-charge also attends the Annual General Meeting. The director candidates shall also be present at the General Meeting that decides upon their election.

Annual General Meeting 2016

Wärtsilä's Annual General Meeting was held on 3 March 2016. A total of 1,693 shareholders representing 113,858,630 votes participated in person or by proxy. The Annual General Meeting approved the financial statements and discharged the members of the Board of Directors and the company's President & CEO from liability for the financial year 2015. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.20 per share. The dividend was paid on 14 March 2016.

Wärtsilä's Annual General Meeting decided upon updating Article 2 of the Articles of Association to read as follows:

"The company shall develop, manufacture and sell mechanical and electrical products, plants and systems, sell spare parts, and provide operation and maintenance services in the marine and energy markets, either directly or through its subsidiaries and associated companies. The company can also provide financing, design and consulting services as well as engage in other industrial and commercial activities. The company may deal in securities and engage in other investment activities."

It was decided to change Article 8 of the Articles so that the notice to the general meeting can be given by publishing it on the Company's website or in not less than two (2) daily newspapers, which are commonly distributed in Finland, as determined by the Board.

The Board of Directors was authorised to resolve on donations of a maximum of EUR 1,300,000 to be made to universities during 2016 and 2017. The most significant recipient of the donations would be Aalto University.

All resolutions were taken without voting. The minutes of the meeting and other related documents can be found on Wärtsilä's website; www.wartsila.com > Investors > Governance.

Board of Directors



MIKAEL LILIUS

Independent of the company and significant shareholders. Chairman of the Board of Wärtsilä Corporation. Born 1949, B.Sc. (Econ.). Member of the Board of Wärtsilä Corporation since 2010, Chairman of the Board since 2011.

Primary working experience

Fortum Oyj, President & CEO, 2000-2009; Gambro AB, President & CEO, 1998-2000; Incentive AB, President & CEO, 1991-1998; KF Industri AB (Nordico), President & CEO, 1989-1991 and Huhtamäki Oy, President of the Packing Division, 1986-1989.

Other positions of trust

Ahlström Capital Oy and Metso Corporation, Chairman of the Boards; Evli Bank Ltd., Member of the Board; Ab Kelonia Oy, Member of the Supervisory Board.

Holdings in Wärtsilä Corporation on 31.12.2016: 18,414 shares



SUNE CARLSSON

Independent of the company and dependent of significant shareholders based on the Board of Directors' overall evaluation. Born 1941, M.Sc. (Eng.). Member of the Board of Wärtsilä Corporation since 2013, Deputy Chairman of the Board since 2015.

Primary working experience

AB SKF, President & CEO, 1998-2003; ABB Ltd, Executive Vice President, 1988-1998 and ASEA AB, Executive Vice President, 1977-1988.

Other positions of trust

Patricia Industries AB, Member of the Board.

Relevant prior positions of trust

Board chairmanship: Atlas Copco AB, 2003-2014. Board memberships: Investor AB, 2002-2015; Stena AB, 2009-2011; Autoliv Inc, 2003-2011 and Scania AB, 2004-2007.

Holdings in Wärtsilä Corporation on 31.12.2016: 12,203 shares



MAARIT AARNI-SIRVIÖ

Independent of the company and significant shareholders. Born 1953, M.Sc. (Tech.), eMBA. Secretary General of Directors' Institute Finland – Hallitusammattilaiset ry; Managing Director of Boardview Oy; Senior Adviser at Eera Oy. Member of the Board of Wärtsilä Corporation since 2007.

Primary working experience

Mint of Finland Ltd., President and CEO, 2008-2010; Borealis Group, 1994-2008, several senior positions of which the most recent was Vice President BU Phenol, 2001-2008, Vice President BU Olefins, 1997-2001 in Copenhagen, Denmark and Neste Oyj 1977-1994.

Other positions of trust

Non-Executive Director of Berendsen plc; Directors' Institute Finland – Hallitusammattilaiset ry and ecoDa (The European Confederation of Directors' Associations), Member of the Boards.

Relevant prior positions of trust

Board memberships: Rautaruukki Oyj, 2005-2012; Ponsse Oyj, 2007-2010 and Vattenfall AB, Sweden, 2004-2007.

Holdings in Wärtsilä Corporation on 31.12.2016: 9,810 shares



KAJ-GUSTAF BERGH

Independent of the company and significant shareholders. Born 1955, B.Sc., LL.M. Managing Director of Föreningen Konstsamfundet r.f. Member of the Board of Wärtsilä Corporation since 2008.

Primary working experience

Skandinaviska Enskilda Banken, Member of management, 2000-2001; SEB Asset Management, Director, 1998-2001; Ane Gyllenberg Ab, Chief Executive Officer, 1986-1998; Oy Bensow Ab, Director, Executive Vice President, 1985-1986; Ane Gyllenberg Ab, Administrative manager, 1984-1985 and Ky von Konow & Co, Administrative manager, 1982-1983.

Other positions of trust

Sponda Oyj, Julius Tallberg Oy Ab, Mercator Invest Ab and KSF Media Holding Ab, Chairman of the Boards; Stockmann plc, Ramirent Group and JM AB, Member of the Boards.

Relevant prior positions of trust

Board chairmanships: Fiskars Corporation 2006-2014; Ålandsbanken Abp 2011-2013 and Aktia Abp 2005-2009. Board memberships: Fiskars Corporation 2014-2015 and Stockmann Oyj Abp 2007-2013.

Holdings in Wärtsilä Corporation on 31.12.2016: 9,032 shares



TOM JOHNSTONE

Independent of the company, dependent of significant shareholders due to a position on the Board of Directors of Investor AB. Born 1955, Master of Arts, Honorary Doctorate in Business Administration and Honorary Doctorate in Science. Member of the Board of Wärtsilä Corporation since 2015.

Primary working experience

Several management posts within the SKF Group, the latest as President and CEO of AB SKF, 2003-2014.

Other positions of trust

British Swedish Chamber of Commerce and Husqvarna AB, Chairman of the Boards; Investor AB and Volvo Cars, Member of the Boards.

Holdings in Wärtsilä Corporation on 31.12.2016: 1,360 shares



RISTO MURTO

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.

Primary working experience

Investments, Varma, Executive Vice President, 2010-2013; Investments, Varma, Senior Vice President, Chief Investment Officer, 2006-2010; Opstock Ltd, Managing Director, 2000-2005; Opstock Ltd, Director, 1997-2000.

Other positions of trust

University of Oulu, Chairman of the Board; Federation of Finnish Financial Services and Sampo plc, Member of the Boards; The Finnish Pension Alliance TELA, I Deputy Chairman of the Board.

Holdings in Wärtsilä Corporation on 31.12.2016: 1,980 shares



GUNILLA NORDSTRÖM

Independent of the company and significant shareholders. Born 1959, M.Sc. in Electronics, Industrial Marketing Management. Member of the Board of Wärtsilä Corporation since 2012.

Primary working experience

President & CEO, Electrolux Major Appliances Asia/Pacific and Executive Vice President, Electrolux AB, 2007-2015; Senior management positions with Telefonaktiebolaget LM Ericsson and Sony Ericsson in Europe, Latin America and Asia, 1983-2007.

Other positions of trust

Bombardier Transport Co, Member of the Board; Member of the Committee of Swedish Business Association of Singapore; Member of EDHEC International Advisory Board.

Relevant prior positions of trust

Board memberships: Atlas Copco, Sweden, 2010-2016, Luleå University, Sweden, 2007-2010 and Videocon Industries Limited, India, 2009-2010.

Holdings in Wärtsilä Corporation on 31.12.2016: 3,423 shares



MARKUS RAURAMO

Independent of the company and significant shareholders. Born 1968, M.Sc. (Econ. and Pol. Hist.). Executive Vice President, City Solutions Division and Member of the Fortum Executive Management Team. Member of the Board of Wärtsilä Corporation since 2011.

Primary working experience

Fortum Corporation, Executive Vice President, Heat, Electricity Sales and Solutions Division, 2014-2016; Fortum Corporation, Chief Financial Officer, 2012-2014; Stora Enso Oyj Helsinki, CFO and Member of the GET, 2008-2012; Stora Enso International London, SVP Group Treasurer, 2004-2008; Stora Enso Oyj Helsinki, VP Strategy and Investments, 2001-2004; Stora Enso Financial Services Brussels, VP Head of Funding, 1999-2001 and Enso Oyj Helsinki, several financial tasks, 1993-1999.

Other positions of trust

Teollisuuden Voima Oyj, Member of the Board.

Holdings in Wärtsilä Corporation on 31.12.2016: 4,534 shares

Operations of the Board of Directors

Responsibility for the management of the company and the proper organisation of its operations is invested in 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 the members annually and re-evaluates as necessary.

The Nomination Committee prepares the proposal for the General Meeting regarding the election of the directors for the Board, and communicates with significant shareholders, when required, on matters pertaining to the proposal. The proposal for the composition of the Board is included in the Notice of the General Meeting. The same applies to a proposal for the composition of the Board 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 shall be disclosed separately in corresponding order. Wärtsilä publishes the biographical details of the candidates for the Board on its website in connection with publication of the Notice of the General Meeting.

The Board elects a chairman and a deputy chairman 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 also given updates at its meetings on the Group's operations, financial position and risks.

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 7-10 times a year following a pre-determined schedule. In addition to these meetings, the Board convenes as necessary. All meetings are documented.

Diversity principles

In order 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 Nomination Committee takes into account the educational and professional background of the individual candidates, as well as international experience so that the composition of the Board represents a wide variety of competencies and qualifications. The Nomination Committee also takes into account the candidates' age, as having different seniority levels on the Board is considered beneficial in terms of ensuring mutually complementing experience.

Wärtsilä's principle with regard to gender is to have members of both genders represented on the Board. In December 2016, Wärtsilä had two female board members out of eight members in total. The objective of the Company is to achieve over time a more balanced representation of both genders on the Wärtsilä Board.

The Nomination Committee 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.

Board of Directors in 2016

As of 3 March 2016, the Board consisted of the following eight members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Sune Carlsson (deputy chairman), Mr Tom Johnstone, Mr Mikael Lilius (chairman), Mr Risto Murto, Ms Gunilla Nordström and Mr Markus Rauramo.

All eight Board members were determined to be independent of the company and 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 on the board of Investor AB. Based on the Board of Directors' overall evaluation, Mr Sune Carlsson was also determined to be dependent of significant shareholders, due to long-term board positions within the Investor Group.

Until 3 March 2016, the Board consisted of the following eight members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Mr Sune Carlsson (deputy chairman), Mr Tom Johnstone, Mr Mikael Lilius (chairman), Mr Risto Murto, Ms Gunilla Nordström and Mr Markus Rauramo.

During 2016, Wärtsilä's Board of Directors held 13 meetings. The average attendance of all directors was 99%. The financial and strategic development of Wärtsilä and its position in the markets, its growth opportunities, and the general further development of the Company have been, among other things, the major items on the Board's agenda. The digital strategy of the Group has been a particular focal point. People matters are an important and continuous part of the Board's work, as they contribute to the long-term success of the Company. In 2016, the acquisitions of Eniram and American Hydro were important themes in the Board's work.

Board member meeting participation in 2016

	Number of meetings	% of meetings
Mikael Lilius, Chairman	13/13	100
Sune Carlsson, Deputy Chairman	13/13	100
Maarit Aarni-Sirviö	13/13	100
Kaj-Gustaf Bergh	12/13	92
Tom Johnstone	13/13	100
Risto Murto	13/13	100
Gunilla Nordström	13/13	100
Markus Rauramo	13/13	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, and 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, the Executive Vice Presidents and the CEO's deputy
- approval of the corporate governance principles
- overseeing that the Company complies with legal and regulatory requirements and its Code of Conduct and other established values and ethical principles in its operations

- discussing and monitoring the R&D and product development plans of the Company
- the appointing of the Board committees
- the granting of charitable donations
- approval of other matters that are strategically or financially important, such as significant investments, acquisitions or divestments.

The Board's committees

The Board of Directors appoints annually an Audit Committee, a Nomination Committee, and a Remuneration Committee, and 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 chairmen 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.

The Audit Committee

The Board of Directors appoints an Audit Committee to assist it in the performance of 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 reporting process of financial statements, supervises the financial reporting process, and monitors 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 the 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 Chairman of the Audit Committee convenes the Committee as required. The Chairman also reports the Committee's proposals to the Board of Directors and regularly reports to the Board on the Committee's meetings.

Audit Committee in 2016

Chairman Markus Rauramo, members Maarit Aarni-Sirviö and Risto Murto. All members are independent of the company and significant shareholders. The Audit Committee met five times in 2016. The average attendance of all Committee members was 100%.

The Nomination Committee

The Board of Directors appoints a Nomination Committee to assist it in its work. The Board appoints at least three of its members to serve on the Committee. The majority of the members of the Committee shall be independent of the company.

The Board defines the duties of the Nomination Committee in the charter confirmed for the Committee. The Nomination Committee prepares the proposal to be put before the General Meeting regarding the election of the directors for the Board. The Committee communicates, when required, with major shareholders in matters pertaining to the election of the directors for the Board. The Nomination Committee prepares matters concerning the remuneration applying to Board members. The Nomination Committee monitors and reports to the Board of Directors the achievement related to the Board's diversity objectives on a yearly basis and proposes adjustments, if needed, to the Diversity Policy for the Board of Directors.

The Chairman of the Nomination Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and regularly reports to the Board on the Committee's meetings.

Nomination Committee in 2016

Chairman Mikael Lilius, members Kaj-Gustaf Bergh, Tom Johnstone and Risto Murto. All members are independent of the company and three are independent of significant shareholders. The Nomination Committee met four times in 2016. The average attendance of all Committee members was 100%.

The Remuneration Committee

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

The Board defines the duties of the Remuneration Committee in the charter confirmed for the Committee. The Remuneration Committee prepares, as necessary, matters concerning the appointment of the President & CEO, the CEO's deputy and other Board of Management members for the Board of Directors. The Committee prepares proposals for the Board of Directors concerning the remuneration principles, incentive schemes and remuneration that apply to the President & CEO and the Board of Management members. External consultants used by the committee are independent of the company and management.

The Chairman of the Remuneration Committee convenes the Committee as required. He also reports the Committee's proposals to the Board of Directors and regularly reports to the Board on the Committee's meetings.

Remuneration Committee in 2016

Chairman Mikael Lilius, members Maarit Aarni-Sirviö and Tom Johnstone. All members are independent of the company and two are independent of significant shareholders. The Remuneration Committee met three times in 2016. The average attendance of all Committee members was 100%.

Board member committee meeting participation in 2016

	Audit Committee	Nomination Committee	Remuneration Committee
Mikael Lilius	-	4/4	3/3
Sune Carlsson	-	1/1	-
Maarit Aarni-Sirviö	5/5	-	3/3
Kaj-Gustaf Bergh	-	4/4	-
Tom Johnstone	-	3/3	3/3
Risto Murto	5/5	4/4	-
Gunilla Nordström	-	-	-
Markus Rauramo	5/5	-	-

Board of Management



JAAKKO ESKOLA

President & CEO of Wärtsilä Corporation since 2015. Born 1958, M.Sc. (Eng.). Joined the company in 1998.

Primary working experience

Wärtsilä Corporation, Senior Executive Vice President and Deputy to the CEO, 2013-2015; President, Marine Solutions, 2006-2015; Vice President, Power Plants Sales & Marketing, 2005-2006; Wärtsilä Development & Financial Services Oy, President, 1998-2005; PCA Corporate Finance, Executive Director, 1997-1998; Kansallis-Osake Pankki, various managerial positions in international project finance, 1986-1997; Industrialization Fund of Finland, Corporate Analyst, 1984-1986; VTT Technical Research Centre of Finland, Researcher, 1983-1984.

Positions of trust

The Federation of Finnish Technology Industries, Member of the Board.

Relevant prior positions of trust

European Marine Equipment Council (EMEC), President, 2008-2011.

Holdings in Wärtsilä Corporation on 31.12.2016: 6,420 shares



PIERPAOLO BARBONE

Deputy to the CEO since 2015 and President, Services & Executive Vice President, Wärtsilä Corporation, since 2013. Born 1957, M.Sc. (Eng.). Joined the company in 1996.

Primary working experience

Wärtsilä Corporation, Vice President Services, South Europe & Africa, 2013; Wärtsilä Corporation, Vice President Services, Middle East & Asia, 2010-2013; Wärtsilä Italia S.p.A., Executive Vice President, 2000-2003; Ciserv Group, President, 2001-2006; Wärtsilä Corporation, Vice President Field Service, 1997-2009; Wärtsilä Italia S.p.A., Vice President Services, 1997-2003; Fincantieri C.N.I. S.p.A., Isotta Fraschini diesel engines business unit, Sales manager, 1989-1996.

Holdings in Wärtsilä Corporation on 31.12.2016: 5,600 shares



PÄIVI CASTRÉN

Executive Vice President, Human Resources since 2012. Born 1958, M.Sc. (Soc. Sc.). Joined the company in 2005.

Primary working experience

Wärtsilä Corporation, Vice President, Human Resources, 2005-2011; Nokia Corporation, Director, Human Resources, Nokia Finland, 2002-2005; Nokia Networks, HR Director, 2000-2002; Nokia Networks, Networks Systems division, HR Director, 1999-2000; Nokia Networks, HR manager, 1995-1998; Valmet Paper Machinery, HR manager, 1988-1995.

Positions of trust

The Federation of Finnish Technology Industries, Chairman of the Committee of Education and Employment; Wilhelm Wahlforss Foundation, Chairman of the Board; Member of the IMD Executive Education Advisory Council.

Holdings in Wärtsilä Corporation on 31.12.2016: 3,970 shares



JAVIER CAVADA CAMINO

President, Energy Solutions & Executive Vice President, Wärtsilä Corporation, since 2015. Born 1975, PhD (Eng.). Joined the company in 2002.

Primary working experience

Wärtsilä Corporation, Vice President, Services South Europe and Africa, 2013-2015; Vice President, Propulsion Services, 2015; Wärtsilä Propulsion, Director, Quality & Operational Development, 2012-2013; Wärtsilä Propulsion Wuxi Co., Ltd., Managing Director, 2011-2013; Cedervall Zhangjiagang Marine Components Co., Ltd., Managing Director, 2011-2013; Wärtsilä CME Zhenjiang Propeller Co. Ltd., Technical Director, 2009-2011; Professor at University of Cantabria, Spain, 2007-2009; Wärtsilä Propulsion Spain, S.A., Director, Delivery Centre, 2008-2009; Production Manager, 2002-2007; Robert Bosch Spain, S.A., Production Manager, Starter Motor, 1999-2002; Technical Manager, Production lines, 1997-2002.

Holdings in Wärtsilä Corporation on 31.12.2016: no shares



KARI HIITANEN

Executive Vice President, Corporate Relations and Legal Affairs since 2012. Company Secretary since 2002. Born 1963, LL.M. Joined the company in 1989.

Primary working experience

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

Positions of trust

European Engine Power Plants Association, EUGINE, President; German-Finnish Chamber of Commerce, Chairman of the Board; Finnish-Russian Intergovernmental Economic Commission, II Deputy Chairman; Finnish-Korean Trade Association, Deputy Chairman of the Board; East Office of Finnish Industries Ltd, Member of the Board; Confederation of Finnish Industries (EK), Chairman of the Trade Policy Committee.

Holdings in Wärtsilä Corporation on 31.12.2016: 4,274 shares



ROGER HOLM

President, Marine Solutions and Executive Vice President, Wärtsilä Corporation, since 2015. Born 1972, M.Sc. (Econ.). Joined the company in 1997.

Primary working experience

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

Positions of trust

GS-Hydro, Member of the Board of Directors.

Holdings in Wärtsilä Corporation on 31.12.2016: no shares



ATTE PALOMÄKI

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

Primary working experience

Nordea Bank AB (publ.), Group Chief Press Officer, 2007-2008, Chief Communication Officer, Finland, 2005-2006; Kauppalehti, Senior Business Correspondent, 2002-2005; MTV3, Senior Economic Correspondent, 2000-2002, News Producer, 1995-2000 and News Anchor, 1993-1995.

Positions of trust

Taloudellinen Tiedotustoimisto TAT (Economic Information Office), European Association of Communication Directors (EACD) and Management Group of the Finland Promotion Board, Member of the Boards.

Holdings in Wärtsilä Corporation on 31.12.2016: 3,869 shares



MARCO RYAN

Executive Vice President and Chief Digital Officer since 26 September 2016. Born 1966, B.Sc. (IM). Joined the company in 2016.

Primary working experience

Flint Group, Interim Chief Digital Officer, 2016; Thomas Cook Group, Chief Digital Officer, 2013-2015; Thomas Cook Touristik GmbH, Managing Director Omnichannel, 2013-2014; Accenture Interactive, Managing Director (ASEAN), 2011-2013; Premier Farnell Plc, Senior Vice President eCommerce and Digital, 2006-2011; Capgemini Consulting, Executive Consultant, 2001-2006; Interactive Collector Plc, VP Interactive Services, 1999-2001; Telematix and Keyhaven Ltd, Managing Director, 1997-1999; British Army, Officer with various management and operational roles, 1985-1997.

Holdings in Wärtsilä Corporation on 31.12.2016: no shares



MARCO WIRÉN

Executive Vice President and Chief Financial Officer since 2013. Born 1966, M.Sc. (Econ.). Joined the company in 2013.

Primary working experience

SSAB, Executive Vice President and CFO, 2008-2013; SSAB, Vice President Business control, 2007-2008; Eltel Networks, CFO and VP Business Development, 2002-2007; NCC, VP Business Development and Group Controller, 1995-2001.

Positions of trust

Neste Corporation, Member of the Board.

Holdings in Wärtsilä Corporation on 31.12.2016: 3,640 shares

The President & CEO and the Deputy 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. He is assisted in this work by the Board of Management. The President & CEO's service terms and conditions are specified in writing in his service contract. The President & CEO of the company is Mr Jaakko Eskola. The deputy to the President & CEO is Mr Pierpaolo Barbone, President, Services.

Operations of the Board of Management

The company's Board of Management comprises nine members: the President & CEO, the Chief Financial Officer, the Executive Vice Presidents heading the Energy Solutions, Marine Solutions and Services businesses, the Chief Digital Officer and the Executive Vice Presidents heading the Communications & Branding, the Corporate Relations & Legal Affairs, and the Human Resources functions. The Board of Management members are appointed by the company's Board of Directors, which also approves their remuneration and other terms of their 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, the Group's structure and corporate steering systems, and it supervises the company's operations.

The Chief Financial Officer's main areas of responsibility include group control, treasury (including project and customer financing), taxation and process development, and corporate planning. The Executive Vice Presidents heading the businesses are each responsible for the sales volumes and profitability of their respective global businesses, employing the services of the Group's worldwide subsidiaries. The Chief Digital Officer leads the Information Management organisation and is responsible for defining, developing and executing Wärtsilä's digital strategy, organisational blue print, and related digital governance in close collaboration with the CEO and the Board of Management. The main areas of responsibility of the Executive Vice President, Corporate Relations & Legal are corporate relations and legal affairs, intellectual asset management and sustainability, as well as environmental and occupational health and safety. The Executive Vice President, Human Resources is responsible for people related processes. The main areas of responsibility of the Executive Vice President, Communications & Branding are external and internal communications, as well as branding. 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 2016

In 2016, the Board of Management met 14 times. The main issues addressed by the Board of Management included market development and business strategy, new growth areas, and the profitability of the company, as well as issues relating to developments regarding competitiveness and costs. Digitalisation and operational excellence were also high on the agenda. Carrying out the acquisitions of Eniram and American Hydro, and planning and implementing the integration process was an important area of focus. Another focus area was the further development of Wärtsilä's organisational structure and the implementation of organisational changes. The development of markets, the regulatory operating environment, order intake and production capacity, as well as supplier and other stakeholder relationships, were also important matters addressed by the Board of Management.

Corporate Management

The company's Corporate Management includes, in addition to the Board of Management, the following directors responsible for corporate functions:

Juha Hiekkänen

Vice President, Financial Controlling
Born 1978, M.Sc. (Econ.)

Riitta Hovi

Deputy General Counsel, Corporate Legal Affairs
Born 1960, LL.M., MBA

Anu Hämäläinen

Vice President, Group Treasury and Financial Services & Support
Born 1965, M.Sc. (Econ.)

Johan Jägerroos

Vice President, Corporate Internal Audit
Born 1965, M.Sc. (Econ.)

Sari Kolu

Director, Compliance
Born 1967, Master of Laws, Executive MBA

Jukka Kumpulainen

Vice President, Chief Information Officer (CIO)
Born 1968, M.Sc. (Eng.)

Antti Kuokkanen

Vice President, M&A, Business Control & Analysis
Born 1977, M.Sc. (Econ.), M.Sc. (Eng.)

Vesa Riihimäki

Vice President, Quality
Born 1966, M.Sc. (Eng.)

Marko Vainikka

Director, Corporate Relations and Sustainability
Born 1970, M.Sc. (Eng.)

Natalia Valtasaari

Director, Investor & Media Relations
Born 1984, M.Sc. (Econ.)

Business Management teams

Each business head is supported by a Business Management team.

Energy Solutions

Javier Cavada Camino

President, Energy Solutions
Born 1975, PhD (Eng.)

Minna Blomqvist

Vice President, Human Resources
Born 1969, M.Sc. (Eng.)

Alexandre Eykerman

Vice President, LNG Solutions
Born 1972, M.Sc. (Mech. Eng. & Shipping), MBA (Supply Management)

Melle Kruisdijk

Vice President, Europe
Born 1971, M.Sc. (Mech. Eng.)

Antti Kämi

Vice President, Engine Power Plants
Born 1964, M.Sc. (Civil Eng.)

Caj Malmsten

Vice President, Africa
Born 1972, M.Sc. (Econ.)

Sushil Purohit

Vice President, Middle East, Asia & Australia
Born 1972, B.Sc. (Eng.), MBA

Tomas Rönn

Vice President, Americas
Born 1961, B.Sc. (Electrical & Electronics Eng.)

Laura Susi-Gamba

Vice President, Legal Affairs
Born 1963, LL.M.

Iñigo Viani

Vice President, Renewables and Storage
Born 1972, B.A. (Science)

Ossi Ylinen

Vice President, Finance and Control
Born 1976, M.Sc. (Econ.)

Marine Solutions

Roger Holm

President, Marine Solutions
Born 1972, M.Sc. (Econ.)

Arjen Berends

Vice President, Finance & Control
Born 1968, MBA

Aaron Bresnahan

Vice President, Sales
Born 1969, MBA & MA (Strategic Studies)

Sinikka Ilveskoski

Vice President, Legal & Contract Management
Born 1967, LL.M.

Timo Koponen

Vice President, Flow & Gas Solutions
Born 1969, M.Sc. (Econ.)

Stephan Kuhn

Vice President, Electrical & Automation
Born 1962, MBA

Juha Kytölä

Vice President, Environmental Solutions
Born 1964, M.Sc. (Eng.)

Arto Lehtinen

Vice President, Propulsion
Born 1971, M.Sc. (Eng.)

Stefan Wiik

Vice President, Engines
Born 1971, B.Sc. (Eng.)

Services

Pierpaolo Barbone

President, Services & Deputy to the CEO
Born 1957, M.Sc. (Min. Eng.)

Guido Barbazza

Vice President, Emerging Business
Born 1960, M.Sc. (Mech. Eng.)

Serge Begue

Vice President, Area South Europe & Africa
Born 1954, Mech. Eng.

Peter Bjurs

Vice President, Finance & Control
Born 1965, M.Sc. (Econ.)

Henri van Boxtel

Vice President, Area Middle East & Asia
Born 1959, B.Sc. (Econ.), Nautical degree

Tamara de Gruyter

Vice President, Propulsion System Services
Born 1972, B.Sc., Shipbuilding Engineering

Tomas Hakala

Vice President, 4-Stroke Engine Services
Born 1968, B.Sc. (Mech.)

Kai Kamila

Vice President, Human Resources
Born 1960, M.Ed. (Master of Education)

Ralf Lindbäck

Vice President, Legal Affairs
Born 1958, LL.M.

Stefan Nysjö

Vice President, Area North Europe
Born 1970, B.Sc. (Mech.)

Vesa Riihimäki

Vice President, Quality
Born 1966, M.Sc. (Eng.)

Walter Reggente

Vice President, Area Americas
Born 1965, Chief Marine Engineer

Sini Spets

Vice President, Business Development
Born 1974, M.Sc. (Psychology)

Managing Directors of the subsidiaries

The Managing Directors of the Group's subsidiaries are responsible for ensuring that the local resources are correctly dimensioned to meet the needs of the businesses and that the subsidiary's personnel development needs 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 according to the targets of the Group.

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, which is 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 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 within 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, of complying with laws and regulations in countries where it operates.

Performance management

Planning and target setting, an integral part of performance management in Wärtsilä, is a regular management activity and not part of Wärtsilä's internal control system. The establishment of objectives, however, is an important pre-requisite for internal control. Through the performance management process, financial and non-financial targets are set for Wärtsilä annually at the Group level. These Group level targets are then translated into targets for the Businesses, Group companies, and eventually for individuals.

The achievement of the annual targets is monitored through monthly management reporting. The performance of the Businesses and the achievement of the annual targets are reviewed on a monthly basis in the respective Management team meetings. The performance relating to the targets set by the Group and the different Businesses are reviewed on a monthly basis by the Board of Management. The respective management teams and the Board of Management also address the reliability of Wärtsilä's financial reporting.

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. The Group Business Control function is responsible for notifying relevant levels of management regarding deviations from plans, analysing the underlying reasons, and suggesting corrective actions. Group Business Control supports the Businesses in decision-making and analyses to ensure the attainment of financial targets. It maintains and develops the company's performance management processes, so that the management at different levels of the organisation is able to receive timely, reliable, and adequate information regarding the achievement of the organisation's objectives. In addition, it is responsible for developing the financial reporting processes and respective controls.

Legal and compliance management

Legal and compliance management practices and processes occupy a central role in Wärtsilä's system of internal control. It is Wärtsilä's policy to act in accordance with the applicable laws and regulations in all countries where it operates.

Legal and compliance management acts predominantly in a proactive manner. Legal Affairs supports the President & CEO and the businesses in analysing and making decisions on matters involving contract policy, risk management, and regulatory considerations. Other key activities are to lead compliance management, and to strengthen and ensure the culture of appropriate conduct and behaviour, both internally and in external business transactions. Compliance management is based on the Code of Conduct and relevant group level policies and directives. Company-wide control mechanisms and processes are a part of the overall internal control system.

HR management

Human resource management practices and processes play an active role in Wärtsilä's system of internal control. Wärtsilä's main human resource management processes with respect to internal control are; compensation and benefits, HR development, recruitment and resourcing management, individual performance management, as well as processes for collecting employee feedback. The HR function is responsible for maintaining and developing Wärtsilä's HR processes to enable effective internal control, also at the individual level.

Other management systems

The Board of Management is responsible for developing and implementing Wärtsilä's management system, continuously improving its performance, and ensuring that it operates effectively. The Wärtsilä management system covers all global processes and management procedures within Wärtsilä related to fulfilling customer requirements. The proper functioning of the management systems highlighted below ensures, for their part, the attainment of Wärtsilä's internal control objectives.

Quality

The quality of Wärtsilä's solutions, and thus also quality management, is a top priority for Wärtsilä. Compliance with Wärtsilä's Quality Management System ISO 9001:2000 is compulsory throughout the Group, and compliance with the system is rigorously monitored.

Sustainability

Wärtsilä is strongly committed to sustainability. Wärtsilä's vision, mission and values, together with a solid financial performance, form the basis for sustainable development within Wärtsilä. Wärtsilä applies global guiding principles, such as the Quality, Environmental, Health & Safety policy (QEHS policy) and the Code of Conduct, which, together with the company's values, ensure a harmonised way of working towards sustainable development. In addition to the aforementioned, the Corporate Manual includes other policies and directives, a description of the company's operating procedures, responsibilities, and the management system structure.

Wärtsilä's Board of Management has overall responsibility for sustainability performance. The Board of Management approves the guiding principles and reviews the content on a regular basis. The Board of Management defines sustainability targets and monitors performance against these set targets. Performance is reviewed in connection with the management reviews at both Wärtsilä's Board of Management and Business Management Team levels.

The Board of Directors reviews major sustainability issues on an annual basis. In addition, the Board of Management identifies major critical concerns and, when necessary, communicates such concerns to the Board of Directors.

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 and the supporting functions, such as Human Resources, Legal Affairs, Compliance and Quality. It also collects and consolidates sustainability data from the subsidiaries.

Wärtsilä has clearly defined responsibilities, which are supported by necessary instructions and training. This training covers, for example, the Code of Conduct, anti-corruption, as well as environmental and occupational

health and safety issues. Wärtsilä monitors its sustainability performance by utilising the information provided by various sustainability tools and activities, such as internal audits and compliance processes.

Risk management

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 pre-requisite for internal control within Wärtsilä. Wärtsilä's internal control mechanisms and procedures provide management assurance that the 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 risk management processes consist of Group-wide risk assessment and management processes, as well as project-specific risk assessments and project risk management. The Group-wide risk assessment process results in the creation of action plans for the identified and prioritised risks.

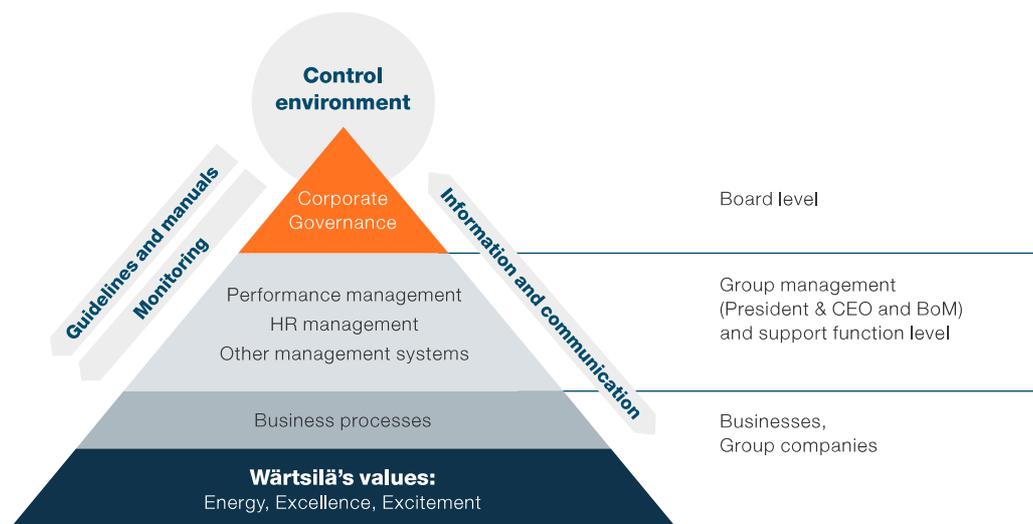
Each Business reports its main risks to Wärtsilä's Board of Management, which reviews the execution of the defined risk management action plans on a regular basis. Wärtsilä's Board of Directors is responsible for defining the Group's overall level of risk tolerance, and for ensuring that Wärtsilä has adequate tools and resources for managing risks. The Board reviews the risk profile regularly. The President & CEO, with the assistance of the Board of Management, is responsible for organising and ensuring risk management in all of Wärtsilä's operations. Business management is responsible for defining action plans for managing the most important risks.

Wärtsilä's most important strategic, operative and financial risks can be found in the [Risks and risk management section](#).

Information management

Information management plays a key role in Wärtsilä's internal control system. Information systems are critical for effective internal control as many of the control activities are programmed controls.

Main components of Wärtsilä's internal control



Values and the control environment

The foundation of Wärtsilä's internal control system is its values: Energy, Excellence and Excitement. Wärtsilä's values are reflected in its day-to-day relations with its suppliers, customers and investors, and also in Wärtsilä's 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, 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 of Wärtsilä. Wärtsilä's values and control environment provide Wärtsilä's Board of Directors and Management with the basis for reasonable assurance regarding the achievement of the objectives for 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 are, together with Business management, 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 the safeguarding of the company's profitability and reputation. 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, Business management is responsible for ensuring that efficient Business level processes with adequate controls have been described and implemented.

Guidelines and communication

Guidelines and manuals

The components of Wärtsilä's internal control system, including for example, corporate governance, the management system, the performance management process, as well as the 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 the objectives regarding 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. Informal means by which employees can provide feedback to management, and to communicate suspected misconduct (e.g. directly to the Compliance, Legal Affairs or Internal Audit function) are used. 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 system of internal control and its performance over time. Monitoring within Wärtsilä is performed both on an ongoing basis, and through separate evaluations that include internal, external and quality audits. Business management is responsible for ensuring that all relevant laws and regulations are complied with in their respective responsibility areas. Wärtsilä's management in turn performs monitoring as part of its regular supervisory activities. 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 assessing and assuring the adequacy and effectiveness of Wärtsilä's internal controls and risk management by performing regular audits of Group legal entities and support functions according to its annual plan. Wärtsilä's external auditor and other assurance providers, such as quality auditors, conduct evaluations of Wärtsilä's internal controls. 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. The Legal and Compliance function monitors adherence to the compliance policies of the group. The external auditors verify the correctness of the external annual financial reports.

Audit

Internal

The Group's internal audit is handled by its Internal Audit unit, which reports to the President & CEO. The purpose of the Internal Audit 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 of the company's organisational levels and subsidiaries. An internal audit is undertaken in the main subsidiaries on an annual basis, and in network companies at three-year intervals. The Internal Audit function prepares an annual plan under which they independently audit different parts of the company, but it is also empowered to carry out special audits. The annual plan is approved by the Audit Committee, to which the Internal Audit function also reports at regular intervals. If required, the auditors also have the possibility to take direct contact with the Audit Committee or members of the Board of Directors.

External

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, and 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, and the administration of the parent company.

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

Auditor in 2016

The Annual General Meeting appointed the audit firm KPMG Oy Ab as Wärtsilä Corporation's auditor for the year 2016. The auditor-in-charge was Ms Virpi Halonen. Auditing fees paid to all the auditors of the Group companies amounted to EUR 3.3 million in 2016. Consultancy fees unrelated to auditing duties paid to the auditors totalled EUR 1.3 million. These latter fees mainly concerned consultation on taxation matters.

Related party transactions

Wärtsilä's related parties comprise the Board of Directors, the President & CEO, the Board of Management, as well as the associated companies and joint ventures. The Group Finance and Control function evaluates and monitors transactions concluded between the company and its related parties to ensure that any conflicts of interest are taken into account 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 an insider list for projects containing inside information. Insiders are given written notification of their status as insiders and instructions on the obligations that apply to insiders.

Members of Wärtsilä's Board of Directors and Board of Management and certain other Wärtsilä personnel are prohibited from trading of the Wärtsilä financial instruments during the 30 days prior to publication of the financial statements bulletin or 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. Persons discharging managerial responsibilities refer exclusively to the members of the Board of Directors and the Board of Management of Wärtsilä. These notifications are available on Wärtsilä's webpage.

Salary and remuneration report 2016

Remuneration of the Board of Directors

The Annual General Meeting decides annually on the fees to be paid to the members of the Board of Directors for one term of office at a time.

The Annual General Meeting approved the following fees to the members of the Board of Directors for 2016:

- to the ordinary members EUR 66,000/year
- to the deputy chairman EUR 99,000/year
- to the chairman EUR 132,000/year

Approximately 40% of the annual fee is paid in Wärtsilä shares. In addition, each member will be paid EUR 600 per board meeting attended, the chairman's meeting fee being double this amount. Each member of the Nomination Committee and the Remuneration Committee will be paid EUR 700 per committee meeting attended and each member of the Audit Committee will be paid EUR 1,200 per committee meeting attended, the chairman's meeting fee being double these amounts. The members of Wärtsilä's Board of Directors were paid altogether EUR 736 thousand for the financial period that ended on 31 December 2016. The Board's members were not covered by the company's incentive schemes.

Fees paid to the Board of Directors

TEUR Board of Directors	Attendance fees		Yearly fees		Total	
	2016	2015	2016	2015	2016	2015
Mikael Lilius, Chairman	23	20	132	132	155	152
Sune Carlsson, Deputy Chairman	8	7	99	99	107	106
Maarit Aarni-Sirviö	16	15	66	66	82	81
Kaj-Gustaf Bergh	8	7	66	66	74	73
Tom Johnstone	11	8	66	66	77	74
Risto Murto	15	13	66	66	81	79
Gunilla Nordström	8	7	66	66	74	73
Markus Rauramo	20	19	66	66	86	85

Fees paid in Wärtsilä shares in 2016

Board of Directors	No. of shares
Mikael Lilius, Chairman	1 465
Sune Carlsson, Deputy Chairman	1 099
Maarit Aarni-Sirviö	732
Kaj-Gustaf Bergh	732
Tom Johnstone	732
Risto Murto	732
Gunilla Nordström	732
Markus Rauramo	732

Board of Directors' share ownership in Wärtsilä on 31 December 2016

Board of Directors	No. of shares
Mikael Lilius, Chairman	18 414
Change in 2016	1 465
Sune Carlsson, Deputy Chairman	12 203
Change in 2016	1 099
Maarit Aarni-Sirviö	9 810
Change in 2016	732
Kaj-Gustaf Bergh	9 032
Change in 2016	732
Tom Johnstone	1 360
Change in 2016	732
Risto Murto	1 980
Change in 2016	732
Gunilla Nordström	3 423
Change in 2016	732
Markus Rauramo	4 534
Change in 2016	732

Remuneration of the President & CEO and the Board of Management

The remuneration paid to the President & CEO and other members of the Board of Management, and the principles underlying it, are determined by the Board of Directors. The remuneration paid to the President & CEO and to the other members of the Board of Management consists of a monthly salary and a bonus. The Board of Directors determines on a yearly basis the terms for the bonus payment. The bonus payments for the President & CEO and the Board of Management are paid based on the achievement of the company's profitability and other financial targets for the financial year. The variable salary can be at most 43% of the maximum total salary for the President & CEO and one third of the maximum total salary for the other members of the Board of Management. Additionally, the Group has a long-term incentive scheme for senior management tied to the development of the company's share price.

The base salary of the President & CEO is EUR 780,000 p.a. He is entitled to participate in the short- and long-term incentives schemes according to the terms and conditions described above. The President & CEO is eligible to take retirement upon reaching the age of sixty-three. His pension scheme is determined according to a defined contribution based system. The retirement pension contribution is a relative part of his annual salary. Remuneration paid to the President & CEO if dismissed by the company corresponds to 18 months' salary plus a six months' period of notice salary.

The members of the Board of Management have a company specific pension scheme. Additional pension schemes and retirement ages vary and are generally based on the retirement scheme of the national social security system to which the person in question belongs, and is either defined benefit or defined contribution based.

Financial benefits of President & CEO Jaakko Eskola, 1 January - 31 December 2016:

- Salary and other short term benefits: EUR 781 thousand
- Bonuses: 179 thousand
- Bonus schemes based on share price development: 216 thousand
- Optional retirement age: 63
- Period of notice: 6 months
- Compensation paid if dismissed by the company: 18 months' salary + 6 months' period of notice salary

Further information on Board of Management remunerations can be found in the Consolidated Financial Statements, [Note 29 Related party disclosures](#).

Board of Management's share ownership in Wärtsilä on 31 December 2016

Board of Management	No. of shares
Jaakko Eskola	6 420
Change in 2016	3 100
Pierpaolo Barbone	5 600
Change in 2016	3 600
Päivi Castrén	3 970
Change in 2016	1 720
Javier Cavada Camino	0
Change in 2016	0
Kari Hietanen	4 274
Change in 2016	2 030
Roger Holm	0
Change in 2016	0
Atte Palomäki	3 869
Change in 2016	1 748
Marco Ryan	0
Change in 2016	0
Marco Wirén	3 640
Change in 2016	1 640

Incentive schemes

The Board of Directors determines the incentive schemes for the President & CEO and other members of the Board of Management and the principles underlying them. The Board of Directors also decides on other possible long-term incentive schemes for senior management, unless they are by law determined by the Annual General Meeting. The Board of Management decides on bonus schemes for other directors and managers.

Short-term incentive schemes

The Group operates a bonus scheme, which is implemented globally in all Businesses. The bonus is based on the Group's profitability and agreed personal targets. Some 3,000 directors and managers are covered by this bonus scheme.

The Group's white- and blue-collar employees are covered by various bonus or profit-based incentive schemes. These are applied in each country according to that country's legislation, or to agreements concerning profit-sharing schemes. All in all, some 80% of the company's employees are covered by the Group's bonus schemes and various other profit-related incentive schemes.

Long-term incentive schemes

The Board of Directors has decided on a long-term incentive scheme for senior management tied to the development of the company's share price. The yearly bonus scheme applies to approximately 100 directors. The size of the bonus is based on the share price development during a pre-determined timeframe, and an upper limit is set for the bonus.

The objective of the incentive scheme is to align the interests of the senior management with those of Wärtsilä's shareholders by creating a long-term equity-related interest for the participants and, thus, to promote shareholder value creation, to drive long-term performance culture in Wärtsilä and to commit Wärtsilä's valuable key resources to the company.

Each Board of Management member is expected to accumulate and, once achieved, maintain a share ownership in Wärtsilä which at least corresponds to the individual's annual gross base salary. Board of Management members shall acquire Wärtsilä shares with 50% of the net bonuses received under the

company's long-term bonus scheme until the above share ownership level has been achieved. The shares shall be acquired by a third party stock broker from the stock market during the ten consecutive trading days following the publication of Wärtsilä's financial results for the final year of the individual bonus scheme.

The 2013 bonus scheme comprises 1,846,000 bonus rights. The bonus payment is based on the share price development during a three-year period on the basis of a share price of EUR 37.05. The bonus cannot exceed EUR 10.00 per bonus right and it takes into account 50% of dividends paid. The 2013 bonus scheme will be due for payment in February 2017.

The 2014 bonus scheme comprises 2,076,000 bonus rights. The bonus payment is based on the share price development during a three-year period on the basis of a share price of EUR 44.25. The bonus cannot exceed EUR 10.60 per bonus right and it takes into account 100% of dividends paid. The 2014 bonus scheme will be due for payment in February 2018.

The 2015 bonus scheme comprises 1,962,000 bonus rights. The bonus payment is based on the share price development during a three-year period on the basis of a share price of EUR 47.47. The bonus cannot exceed EUR 13.84 per bonus right and it takes into account 100% of dividends paid. The 2015 bonus scheme will be due for payment in February 2019.

Evaluation

The Board of Directors monitors the Group's short- and long-term incentive schemes and evaluates the achievement of the targets on which they are based. The incentive schemes for 2016 were found to be well balanced and in accordance with market practices.

Risks and risk management

The aim and principles of risk management

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, and any expected gains from business activities are to be assessed against the involved risks.

The purpose of risk management is to ensure that Wärtsilä is able to effectively execute its strategies and to reach its targets, in the short term as well as over the long run. The key is to identify the risks that have the potential to restrain the company from reaching its goals, and to determine whether those risks are at an acceptable level.

By definition, risk is the effect of uncertainty on objectives. An effect is a deviation from the expected – positive or negative; in other words either a threat or an opportunity. Actions need to be taken to avoid, mitigate, transfer, or monitor identified risks, or to capture and utilise the opportunities. Wärtsilä's structured risk management process offers a set of reactive, proactive, protective, and preventive tools that are used not only to protect it against threats, but also to turn some of the risks into opportunities.

Risks can only be managed if they are identified and understood in advance, if risk treatment plans for managing them are made, and if a process of continuous follow-up is in place for the related controls. Therefore, risk management is a central part of Wärtsilä's strategic and operational management.

Risk management at Wärtsilä is a continuous process of analysing and managing all the opportunities and threats faced by the company in its efforts to achieve its goals, and to ensure the continuity of the business. The basis for risk management is the lifecycle quality of Wärtsilä's operations and products, and the continuous, systematic loss prevention efforts at all levels of the Group, not only as an integrated part of

management systems, but as part of every employee’s daily work. In the long-term, this is the only means for reducing the overall risk related costs.

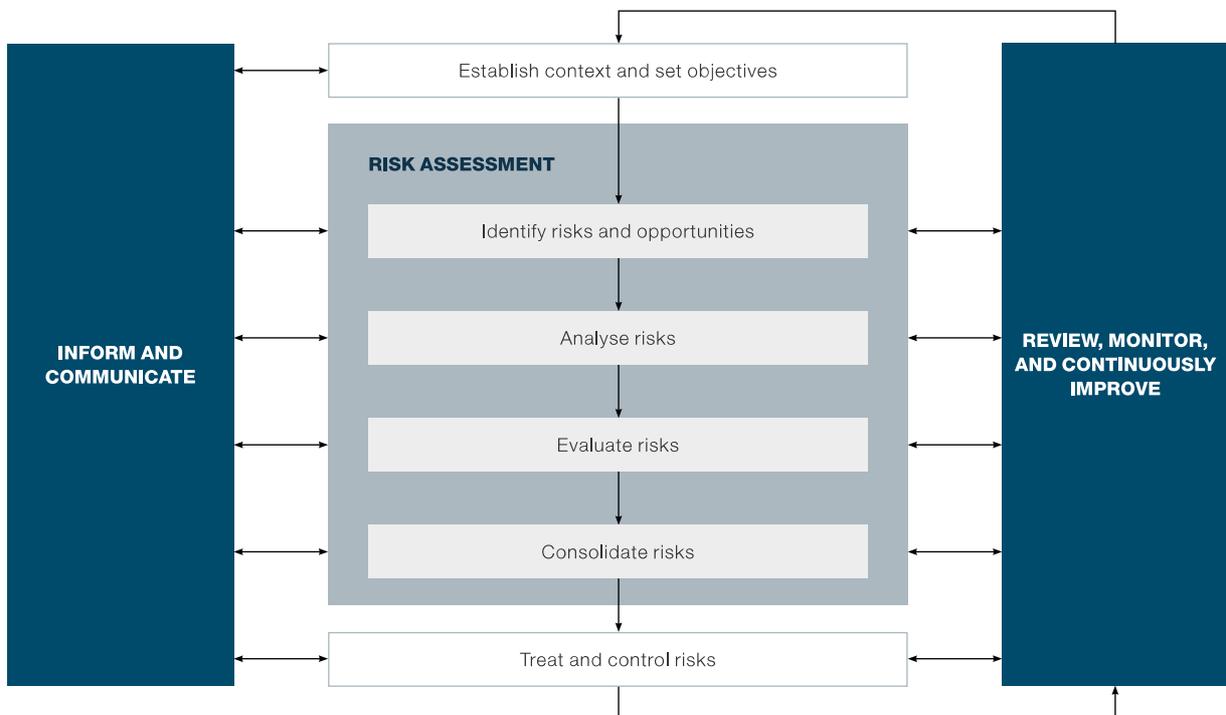
Risk management policy and process

Wärtsilä has a corporate level risk management policy which defines and formalises the Businesses’ risk management and reporting procedures. The document acts as a risk management guideline generating a common understanding over risk related concepts. It harmonises and structures the way of working with respect to risk management within the group in order to achieve a process whereby the risks identified are measurable and possible to consolidate. The policy brings consistency to risk management practice, provides a structure for the organisation and Businesses to handle day-to-day risk management tasks in accordance with the agreed processes, and provides a unified vocabulary to provide further guidance with respect to generic terms and definitions relating to risk management.

The Businesses are responsible for the risks and rewards, and thus managing risks is in the responsibility of business management teams and individual managers. The risk management process controls exposures to risk by using systematic mapping, assessment, treatment, reporting, monitoring and control of risks, including the reporting of residual risks. Wärtsilä’s risk management process is based upon the ISO 31000 Risk Management Guidelines and Principles, and the vocabulary of ISO 31000 has been adopted in order to streamline risk related communication within the Group.

The risk management process at Wärtsilä is designed to be an integral part of management, which is embedded in Wärtsilä’s culture and practices, and tailored to fit the business functions and processes of the organisation. The process can be seen as a continuous loop consisting of the repetitive steps of context establishment, risk assessment, risk treatment, communication and consultation, and finally monitoring and review.

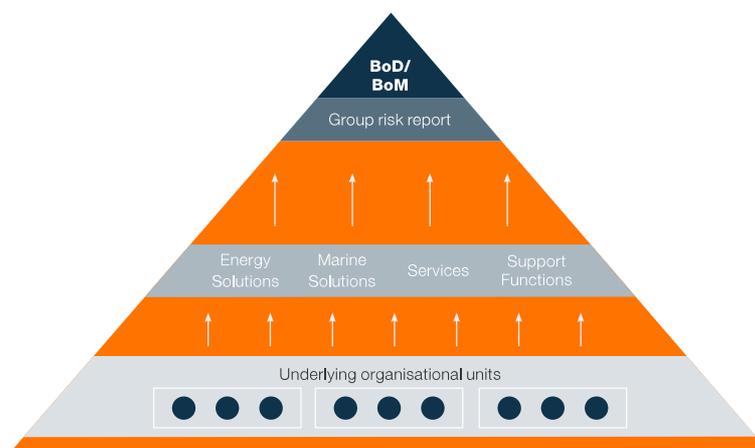
Risk management guidelines and principles



Implementation

The Board of Directors and the Board of Management decide and set the guidelines on strategic matters. Each Business is responsible for achieving its set strategic goals, and for mitigating and managing its risks. The Corporate Risk Management function is part of Group Treasury, which reports to the Chief Financial Officer. The function is responsible for the risk reporting process, and for conducting risk assessments with the Businesses and their underlying organisations. It co-ordinates all risk management activities within the Group, reviews the business risk profile, and cooperates with the Businesses in the implementation of risk mitigation work. It is also responsible for maintaining the Group risk management policy, and for describing the current way of working in relation to risk reporting. Furthermore, the Risk Management function develops and manages global and local insurance schemes for insurable risks. The Audit Committee reviews and assesses the adequacy of risk management, and the Internal Audit function is responsible for reviewing the risk management process on an annual basis.

Risk reporting



Risk mitigation actions are decided in the normal course of business. At its meetings, the Board of Management conducts annual Management Reviews for each Business and certain main support functions, addressing also their risks and risk mitigation. The Group risk map is consolidated from the results of the business and function reviews and presented annually as part of the Finance Management Review.

The identified risks are labelled as either internal or external; they are quantified in euro, and their probabilities are estimated. The Group risk report is then prepared and presented to the Board of Directors.

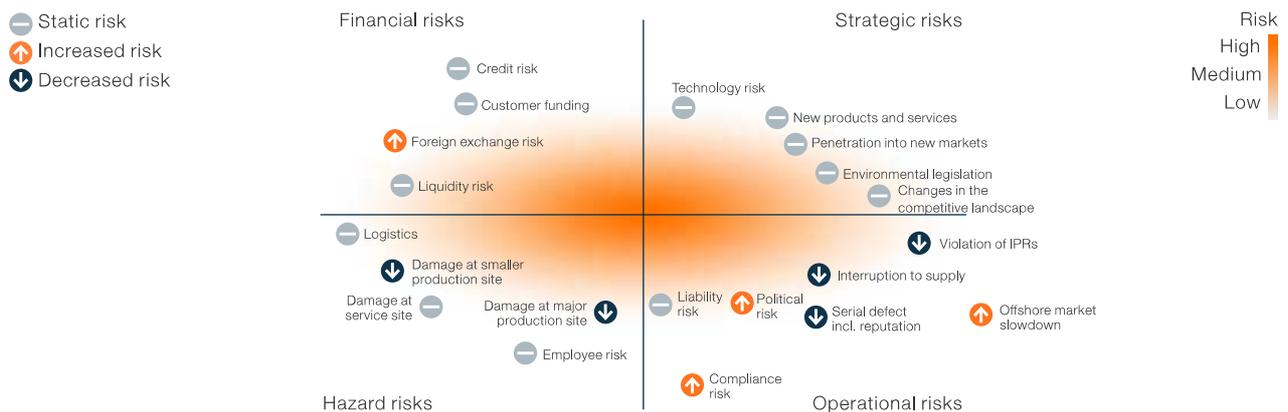
Risk management is part of the Businesses' management process and has been integrated into the Business Management teams' agenda. The Businesses are accountable for organising and reporting on risk management from their underlying geographical business areas, business lines, organisations, and product centres. All follow-up actions are also the Businesses' responsibility.

Risk categories

The relevant risks for Wärtsilä have been classified under four categories; strategic, operational, hazard and compliance, and financial risks. The potential loss expectancy is highest with strategic and operational risks and lowest with hazard and financial risks. The risks in most of the categories can have both upside and downside impacts. In this regard, hazard risks are an exception, since for them only a negative effect is possible.

Risk radars are used to map the main risks within the risk categories. In annual risk assessment workshops between the Businesses and the Corporate Risk Management function, Business specific risk radars are generated for the use and evaluation of the Business Management teams, and are reviewed and updated by them on a regular basis. The Business specific radars are consolidated into a single Group Risk Radar, which is presented to the Board of Directors and the Audit Committee once a year. The purpose is to facilitate the discussion on risk and to give a quick overview of where priorities should lie in terms of risk management.

Risk radar



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 in the global economy, and in customer industries, influence the demand for Wärtsilä's products, as well as its financial condition and operating result. The flexible manufacturing model based on capacity outsourcing, together with a stable business mix with a large share of sales deriving from Services, provides Wärtsilä with a certain level of stability in a cyclical market. Important economic matters that indirectly affect Wärtsilä, its clients, and suppliers include inter alia, the liquidity and solvency of financial institutions, and thus not only their capability but also their willingness to extend credit, the counter cyclical stimulus programmes adopted by governments – especially in the power and infrastructure sectors, the enhanced activities of multilateral institutions, such as the International Finance Corporation, the availability of export credit schemes and guarantees, and other such factors. However, Wärtsilä's relatively large order book gives the company time to adapt to changes in market conditions.

The implementation of more stringent environmental regulations is important for Wärtsilä's future growth potential, since the company's comprehensive portfolio of products and services allows customers to meet such stricter requirements. A delay in legislation implementation may present a risk to Wärtsilä, and possible changes in the legislation timeline and scope are, therefore, actively monitored.

Market and customer risks

In the Energy Solutions business, slow economic growth represents the primary risk for demand development. Delays in customer investment decisions can represent a risk in regions with geopolitical tension or significant currency fluctuations. Low oil prices are affecting national infrastructure development in the oil and gas

producing economies, especially in the Middle East and Russia. Price pressure resulting from the challenging competitive environment remains a risk. Orders have been received from all geographic regions, thus limiting the risk of dependence on one particular market. Energy Solutions' three customer segments, namely industrial customers, IPPs (Independent Power Producers), and utilities, were also all represented in the order intake.

Wärtsilä is well represented in all the major shipbuilding markets, and is active in all the main vessel segments. This, along with the large product portfolio, mitigates both geographical and single customer risks. Marine market activity was weak during 2016. Challenges resulting from the uncertainty in the global economy and the business environment within the shipping and shipbuilding industries, continued to affect markets. Increasing consolidation of the market with a decreasing number of major shipbuilding customers, as well as the shrinking order books of many of the shipyards, were observed in 2016. The weak short-term global economic outlook, overcapacity, and low demand for cargo tonnage are the main obstacles to recovery in the conventional shipping markets. Low oil prices, an oversupply of oil and gas, and reduced capital expenditure from the oil companies continue to limit offshore investments. The Cruise & Ferry segment continued to develop positively during 2016, with the demand for cruise vessels being supported by the anticipated growth in Asian passenger traffic. The demand for ferries was supported by signs of economic recovery and increasing passenger volumes in the USA and Europe.

The importance of fuel efficiency and environmental regulations are clearly visible and offer opportunities for Wärtsilä. Wärtsilä is well positioned to sell both equipment and services, including surveys, installation, partnership, and lifecycle support. The regulatory environment is also driving the adoption of gas as a fuel in the broader marine markets. The shipbuilding market continued to be dominated by Asian yards, notably China and South Korea, but with good activity also in Europe thanks to activity in the cruise segment.

Wärtsilä Services' mid- and long-term activities are expected to grow in line with the development of the existing installed base and general global economic developments. Therefore, a slowdown in global growth represent the primary risk for demand development in the Services business. Wärtsilä Services has more than 10,000 individual customers engaging in service and spare part sales annually, and the current active base of installed Wärtsilä engines is 181,000 MW. Thus, dependency on any single customer or customer segment is minor. During recent years, Wärtsilä has increased its focus on credit management processes so as to better manage the increasing risks resulting from higher leverage and decreasing profitability in certain customer segments. Exposure to individual customers is limited, but an industry-wide impact might also affect the profitability of Wärtsilä's Services business.

Competitive situation and price risks

In larger gas-fired projects, Wärtsilä is facing competition from gas turbine manufacturers, such as GE and Siemens. In smaller gas power plant projects, and in the liquid fuel power plant market, the competitors are mainly other combustion engine suppliers, such as MAN Diesel & Turbo, GE Jenbacher, Caterpillar (MAK), and Rolls-Royce. In Wärtsilä's addressable market, i.e. the market for installations of up to 500 MW, orders for natural gas and liquid fuel power plants totalled a power output of 17.4 GW (17.0) during the first nine months of 2016. Wärtsilä's market share was 15% (10). Wärtsilä's success in the market can be attributed to its flexible power generation solution, which can be used in a wide range of different applications and power plant sizes.

For Marine Solutions, the competitive landscape remained largely unchanged in 2016. The most significant competitors in the main engine markets are MAN Diesel & Turbo, Caterpillar (MAK), and Hyundai Heavy Industries (HiMSEN). Wärtsilä has a strong position in medium-speed engines with a 51% market share in 2016. In auxiliary engines, Wärtsilä's market share was 18%. In propulsion equipment, the competition is more fragmented and varies by product category. One of the main competitors for these products is Rolls-Royce. In environmental solutions, as well as in flow and gas products, the markets are very fragmented. Alfa Laval is one of the main competitors in environmental solutions, while in the Electrical and Automation segment we face competition from companies such as Kongsberg, GE and Siemens. Price competition has continued to be intense in the marine markets. The strategic move of becoming a systems integrator with automation and ship design capability has proven to be important in the competition for new projects with larger and more value added scopes. The concept of selling packaged solutions reduces price volatility.

In the Services business, Wärtsilä has no direct competitors capable of offering a similar portfolio of services from a single source. Excluding the networks of other engine manufacturers, there are few global players in the service market. The continued focus of customers on optimising operating expenditures can lead to a further increase in competition for services where price is more important than quality. The main action for mitigating this risk is to promote the value based offering.

Political and legislative risks

Wärtsilä is present in over 200 locations in more than 70 countries and has delivered power plants to 176 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 dialogue with various official bodies on projects of importance to its operations and intellectual property rights. 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.

In recent years, there has been increased regulatory activity by different governments worldwide, which has led to the need for emphasising due internal processes to ensure compliance. As an example, the continuing and changing trade sanctions were closely monitored during 2016. This has required increased internal efforts to ensure that adequate procedures are in place.

Climate change and sustainability risks

Wärtsilä has assessed its sustainability risks, including climate change risks, in both its strategic and operative risk assessments. However, the risks were not found to be significant. The potential business risks related to sustainability, climate change, and Wärtsilä's products are in the areas of regulatory emission restrictions and changes in customer attitudes to using combustion engines and fossil fuels. The risks in environmental legislation changes are related to the complexity of the overall field of different emissions, the balance between commercially available fuels and their resulting emissions, available abatement technologies, the impact on overall energy efficiency, and the resulting financial feasibility of the various alternative ways to meet regulatory demands.

Being at the forefront of technological developments mitigates sustainability risks and gives Wärtsilä many opportunities arising from tightening environmental regulations. Over the years, Wärtsilä has worked continuously to improve the efficiency of its products, while at the same time seeking ways to reduce emissions. The fuel flexibility of Wärtsilä's products enables the utilisation of various fuels, including gas and those from renewable sources, while their operational flexibility enables the installation of large capacity based wind and solar energy systems without hampering the reliability of the electricity grid. In 2016 Wärtsilä entered the solar energy business with its first solar energy project in Jordan; a further step in providing our customers with sustainable innovations that reduce carbon emissions. Wärtsilä's technology also enables energy to be generated with a minimum use of water. The lack of fresh water is expected to be one of the major challenges facing the world in the future. In shipping, Wärtsilä can reduce the carbon footprint of vessels through optimised ship design, and optimal propulsion solutions.

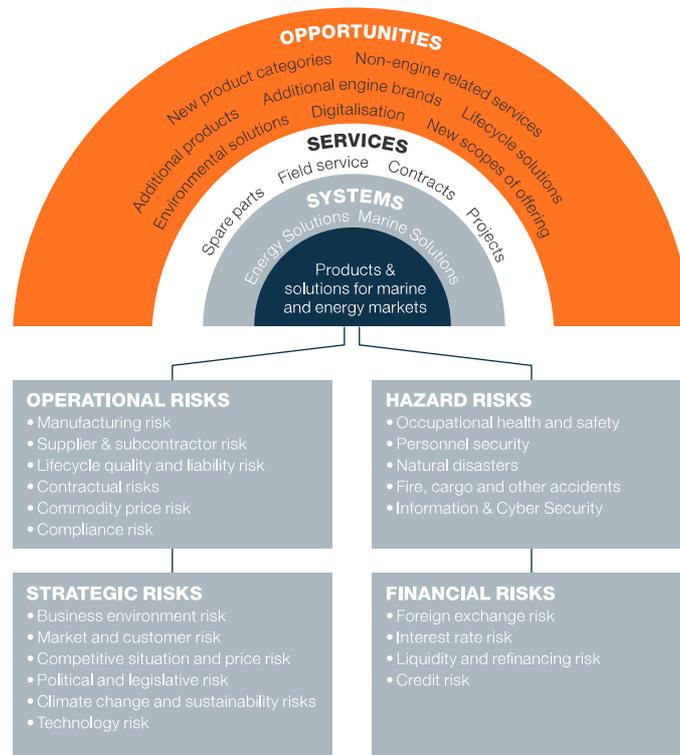
Environmental solutions offer alternative technologies to reduce SO_x emissions and to treat waste and ballast water. In Energy Solutions, Wärtsilä's Smart Power Generation concept supports the increase in low carbon power generation, including wind, solar, and natural gas fired plants. Wärtsilä offers several retrofit solutions for the after-sales market to reduce emissions and to increase fuel efficiency.

For more information, please see the separate [Sustainability report](#) included in this annual report.

Technology risks

Wärtsilä aims to increase the competitiveness of its solutions and manage technology risks through solid R&D efforts and innovation. The development of new products is based on the strategic view of optimising lifecycle value for customers with modern and sustainable power solutions through, for example, gas solutions, environmental technologies, ship design, and electrical & automation solutions. As a technology leader, Wärtsilä places strong emphasis on emissions control, enhancing efficiency, and maintaining the cost competitiveness of its products.

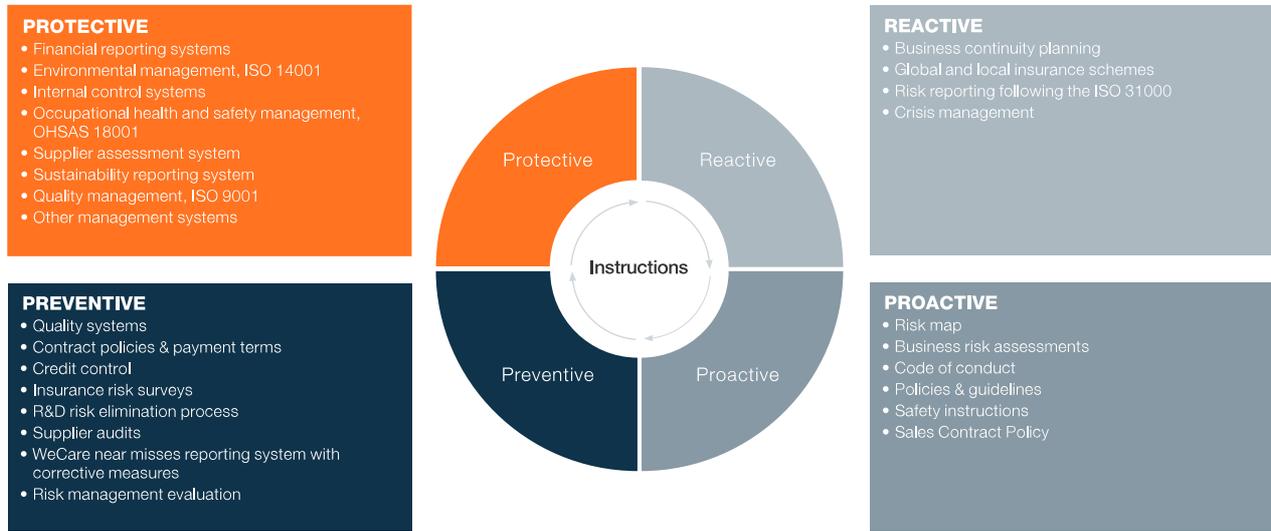
Operations, risks and opportunities



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 are reviewed on a periodic basis and appropriate further actions are taken.

Risk management process



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 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 sub-contractor risk

Wärtsilä’s supply management is integrated within the business lines, the goal being to secure quality, lead times, and costs according to business specific requirements. In order to ensure coordinated interfaces and synergies for the cross-divisional supplier base, a category management structure has been put in place. Indirect Purchasing remains a centralised function responsible for managing strategic sourcing activities for indirect materials and services in all businesses and support functions.

The supply management units have a unified process for managing and controlling Wärtsilä’s supplier network, and for verifying that the suppliers’ performance meets Wärtsilä’s expectations. Supplier performance is, therefore, continuously measured. A key activity in managing business continuity planning is the continuous assessment of business interruption risks, which is carried out in cooperation with the company’s suppliers. Several supplier risk audits have been completed jointly with the insurer as one means of mitigating risk. These audits are now one of the regular tasks for the supply category managers and the Risk Management function.

Wärtsilä has developed its supply related activities by creating close collaboration and long-term relationships with its main suppliers. This cooperation creates a common view towards values and goals, which in turn supports the management of Wärtsilä’s strategic risks. To further mitigate supplier and sub-contractor risks, a comprehensive follow-up of suppliers’ credit worthiness has been established. Supplier related risks for key components are mitigated by establishing dual- or multi-sourcing.

Lifecycle quality of products and product liability risk

The launching of new products always involves risks. In the R&D process, several risk management techniques are applied, 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. Wärtsilä applies a GATE model in order to control the product development process. Initially, only a limited release of new products is allowed, and via the gate approach, full release authority is given to the sales organisations only after testing and further validation has been completed.

Wärtsilä seeks to control 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 they are applied throughout the delivery chain. The 5S (sort, shine, set, standardise, and sustain) philosophy is implemented at all production sites to increase quality levels, and to support lean operations.

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

Wärtsilä seeks to continuously improve the quality of its products and services through the adoption of best industry practices and good governance. 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. The centralised Wärtsilä Quality function is responsible for coordinating quality activities across the businesses, and for ensuring that senior governance mechanisms are in place and effective.

Contractual risks

Wärtsilä's non-service sales include projects and equipment supply deliveries of various sizes. The most substantial orders concern turnkey power plants. However, in relation to the total volume of business, the risks from individual projects do not reach significant levels. The lifecycle quality of the products and work, starting from the initial design, throughout all stages of the production process, to the eventual field service work, plus the use of standard sales contracts, including the establishment of a contract review process, together reduce the risk of product liability claims.

In the Services business, the contractual risk is related mainly to long-term agreements and service projects, such as engine upgrades, retrofits or modifications. These offerings represent approximately 25% of the total Services business, but the risks connected to individual contracts do not reach significant levels since the business between the various customers and countries is broadly spread. In addition, both offerings follow a well-defined sales process, thereby bringing multiple control points to observe embedded risks and to plan their control, both in contractual measures as well as in execution.

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. Wärtsilä is committed to high ethical standards and integrity in its Businesses, and to preventing corruption and violations of the principles set forth in the Code of Conduct, as well as in Wärtsilä's Anti-Corruption and Compliance Reporting policies. 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. Wärtsilä is fully committed to compliance with the anti-corruption laws and statutes. Wärtsilä's Anti-Corruption Policy absolutely forbids any kind of corruption and bribery, and the top management of the company has a zero-tolerance policy regarding corruption and fraud.

The Compliance function promotes Group wide compliance and continuously strives to raise awareness of the risk of corruption and bribery and other misconduct. It is primarily responsible for creating and enforcing Group level policies and procedures, training programmes, internal compliance investigations, managing the consequences of misconduct, and reporting. The continuous development of Wärtsilä's compliance programme and nurturing the company's commendable ethical culture are pivotal tasks for the Compliance function. Moreover, Compliance supports and cooperates with the Businesses and other corporate functions in their risk management efforts. In 2016, Wärtsilä's Board of Management initiated a Group-wide programme

for strengthening Wärtsilä's Code of Conduct. The programme aims to increase employees' understanding on how the Code of Conduct impacts the everyday work at all Wärtsilä locations wherever Wärtsilä operates.

While Wärtsilä is aware of the risk of being subject to fraud by external business parties, and that the risk of corruption and fraud is heightened in many markets where the company operates, 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

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 increase operating costs, especially in the shipping markets. However, they also stimulate investments in exploration and production for 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 in Wärtsilä's business.

Metals

Metal prices have an indirect effect on the component costs of Wärtsilä's products. Furthermore, some key components are sourced with long-term contracts, and thus raw material price volatility is limited.

Electricity

Electricity prices have no substantial impact on Wärtsilä's production costs. In the Energy Solutions business, high electricity prices support investments in new capacity by utility customers. Lower grid electricity prices do not favour investments in their own generating capacity by industrial customers.

Hazard risks

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. A specific Zero Injury project exists for this purpose, and the target is a part of the company's sustainability programme. During 2016, the near-miss reporting system, WeCare, has been actively used worldwide in order to manage information related to incidents that can threaten the safety, health and security of the company's employees and operations, as well as the environment. This IT solution itself does not alone improve performance, but it does provide a guide for identifying the causes of incidents, and for taking all appropriate actions in a systematic way.

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. For Wärtsilä's main sites, business impact analyses have been conducted and continuity plans created to cover both property and business interruption risks.

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 established its own captive insurance company, Vulcan Insurance PCC Ltd,

as a risk management tool. The company is located on Guernsey for insurance technical reasons, and it insures only Wärtsilä's own property. Vulcan Insurance PCC Ltd is subject to normal taxation in Finland.

Information & cyber security related risks

Wärtsilä has an internal organisation dedicated to cyber security governance and management. This organisation, in cooperation with Wärtsilä's divisional business management, is responsible for Wärtsilä's cyber security governance and management in connection with its customer offerings and internal operations. The Wärtsilä cyber security governance model ties together traditional safety and security functions with cyber security operations.

Information security risks related to Wärtsilä's internal operations are continuously identified, and mitigation activities are executed in network security, endpoint protection, access management and vulnerability management. The Wärtsilä Security Operations Centre monitors the internal threat exposure level with vulnerability scanning capabilities, and provides a coordinated response to identified information security incidents.

Which insurances cover our business?



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

Financial risks

Wärtsilä's financial risks are presented in the notes to the financial statements, [Note 30](#).

Wärtsilä's risk profiles & responsibilities

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 and legislative risk		Various guidelines and risk management policy	Businesses, R&D, Risk management (RM) and Legal functions
Climate change and sustainability risk		QHSE 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 function
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 systems (ISO 9001), safety instruction and manuals, risk management policy, R&D risk elimination instructions	Manufacturing, R&D function, Businesses, RM, Quality and Legal functions

Contractual risks		Standard contracts, Corporate Sales Contracting Policy	Legal function and Businesses
Commodity price risk		Production cost control	Businesses and Treasury function
Data security risk		Data security principles and Cyber Security Strategy	Businesses and IM function
Non-compliance risk		Code of Conduct, Anti-corruption policy, Compliance policy	Businesses and Compliance function
Hazard risks		Risk management policy and guidelines	Businesses and RM function
Personnel risk		Management system (OHSAS 18001), travel safety instructions, crisis management guidelines, near misses reporting and premises safety plans	Businesses, Human Resources (HR), RM, EHS and security functions
Natural catastrophes		Crisis management guidelines, Business Continuity Plan	Businesses and RM function
Fire, cargo and other accidents		Management systems (ISO 14001 & OHSAS 18001), premises safety plan	Businesses, RM and Real Estate functions
Financial risks		Wärtsilä's strategy and business plans	Businesses and Treasury function
Foreign exchange risk		Treasury policy	Businesses and Treasury function
Interest rate risk		Treasury policy	Businesses and Treasury function
Liquidity and refinancing risk		Treasury policy	Businesses and Treasury function
Credit risk		Credit and Treasury policy	Businesses and Treasury function

Low High