

Wärtsilä Corporation Annual Report **2016**

Governance

Salary and remuneration report 2016	03
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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	Attendance fees		Yearly fees		Total	
Board of Directors	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.