

Wärtsilä Corporation Annual Report 2017

**Enabling
sustainable
societies
with smart
technology**

Governance

Remuneration report 2017

03

Remuneration report 2017

Dear Shareholders

This report sets out the remuneration for the Board of Directors and Board of Management for 2017. With this report, we endeavour to provide greater clarity and transparency on the remuneration arrangements at Wärtsilä.

Remuneration at Wärtsilä is guided by our rewarding principles. These principles are used to structure the approach to reward throughout the organisation, and are designed to align employee rewards with the interests of the company and its shareholders. The remuneration policy for the President & CEO and other members of the Board of Management has been developed taking these principles into account.



The short-term incentive awards for the Board of Management were based on profitability (EBIT) and cash-flow targets. The target award opportunity was unchanged from 2016 but the maximum award opportunity was increased.

Wärtsilä's long-term incentive scheme is based on share price development. The share price performance in recent years will result in the 2014 scheme paying out at the maximum of EUR 10.60 per bonus right in February 2018.

We believe in a consistent approach to reward at Wärtsilä. The remuneration arrangements for the Board of Management, which also cascade down to other members of the senior management team, have operated broadly unchanged for the last few years. The Committee considers that the current schemes remain appropriate and no significant changes are planned for 2018.

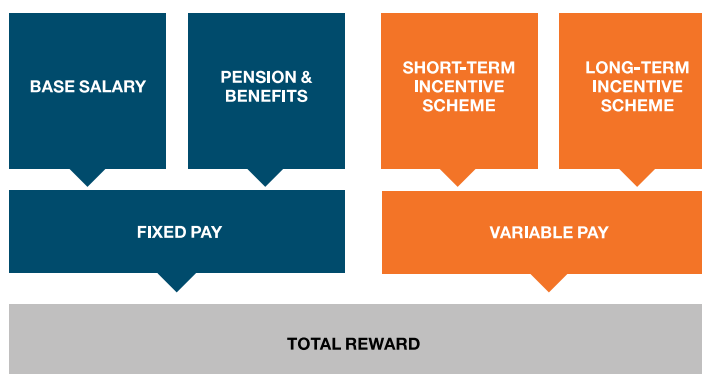
Mikael Lilius

Chairman of the Remuneration Committee

Remuneration principles for the Board of Management

Wärtsilä's remuneration policy is designed to attract, retain and motivate executives by providing compensation solutions that reward them for their performance in delivering business results.

The remuneration arrangements for the Board of Management consist of fixed and variable, performance related, pay as follows:



Fixed pay

The fixed remuneration paid to the President & CEO and to the other members of the Board of Management consists of a monthly base salary and fringe benefits. Base salaries are reviewed annually taking into account company and individual performance and market conditions. Benefits include a company car, private medical insurance and participation in a company pension scheme.

The President & CEO and members of the Board of Management participate in company specific pension schemes in addition to any statutory requirements. The nature of the supplementary 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 are either defined benefit or defined contribution based. The President & CEO participates in a defined contribution based system with a company contribution comprising 20% of the salary.

Variable pay

The Board of Directors determines the incentive schemes for 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 and is designed to provide incentives for achievement of and reward for delivery of the short-term business plan. The bonus is based on the Group's profitability and agreed personal targets. Around 3,000 directors and managers are covered by this scheme.

For the President & CEO and the Board of Management, performance is based on the achievement of the company's profitability and other financial targets for the financial year, as set by the Board of Directors. The short-term incentive opportunity is capped at 100% of the annual base salary for the President & CEO, and 65% of the annual base salary for the other members of the Board of Management. Bonuses are paid in cash shortly following the year-end.

Wärtsilä's employees also participate in bonus or profit-based incentive schemes. These are applied in the majority of countries where Wärtsilä operates according to that country's legislation, or they take the form of local bonus or profit-sharing schemes. All in all, 80% of the company's employees are covered by the Group's bonus schemes and various other performance-related incentive schemes.

Long-term incentive scheme

Around 100 senior managers, including the President & CEO and the Board of Management, participate in Wärtsilä's long-term incentive scheme.

The objective of the long-term incentive scheme is to align the interests of senior management with those of Wärtsilä's shareholders by creating a long-term equity-related interest for the participants. In so doing this promotes shareholder value creation and drives a long-term performance culture in Wärtsilä.

The long-term incentive scheme has a three year performance period. Under the scheme, participants are awarded "bonus rights". The value of a bonus right at the end of the performance period is based on the growth in value of the share price between the three month period immediately preceding the performance period and the last three months of the performance period. The end share price may include a value for part or all of the normal and extraordinary dividends paid by the Wärtsilä Corporation during the performance period.

Valuation of the bonus rights:

$$\left(\text{COMPARISON SHARE PRICE} - \text{STARTING SHARE PRICE} \right) \times \text{NUMBER OF BONUS RIGHTS} = \text{VALUE OF LONG-TERM INCENTIVE}$$

To ensure an appropriate level of reward, an upper limit is set for each award cycle, capping the maximum value for each bonus right. The bonus rights are paid-out in cash, but the President & CEO and the Board of Management members are expected to acquire Wärtsilä shares with 50% of the net value received until they have achieved their required share ownership level.

Share ownership policy

Each Board of Management member is expected to accumulate and, once achieved, maintain a share ownership in Wärtsilä that at least corresponds to the individual's annual gross base salary.

Contractual terms for the President & CEO

The base salary of the President & CEO is EUR 785,000 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 (63). His pension scheme is determined according to a defined contribution based system. The retirement pension contribution is equivalent to 20% of the annual salary. Remuneration paid to the President & CEO if dismissed by the company corresponds to 18 months' salary plus a six months' period of notice salary.

Remuneration of the Board of Management

Board of Management's total remuneration in 2017

TEUR

Board of Management	Salary and short-term benefits	Pension contributions	Short-term incentives ¹	Long-term incentives ²	Total
Jaakko Eskola, President & CEO	785	156	295	410	1 645
Pierpaolo Barbone, President, Services and Deputy to the CEO	425	88	105	410	1 028
Other members of the Board of Management	2 162	493	441	1 587	4 863

¹ Relates to the annual bonus for 2016 performance, which was paid in 2017

² Relates to the 2013 long-term incentive cycle, which was paid in 2017

Short-term incentive schemes

Board of Management's performance target structure for the short-term incentives is as follows:

PRESIDENT & CEO	Group EBIT % (2/3)	Group Cash Flow from operating activities (1/3)
BUSINESS ROLES	Group EBIT % (1/3)	Respective business targets (1/3)
OTHER CORPORATE ROLES	Group EBIT % (2/3)	Group Cash Flow from operating activities (1/3)

A sliding scale of targets was set for each measure.

Short-term incentive for 2016 performance

Performance against the group targets was as follows:

MEASURE	PERFORMANCE OUTCOME
Group EBIT	Between threshold and target
Group Cash Flow from operating activities	Between target and maximum

The bonus paid-out, on average, at 50% of the maximum for the Board of Management, and 50% of the maximum for the President & CEO.

Short-term incentive for 2017 performance

The same performance measures and weightings apply to the annual bonus for 2017 performance, which will be paid in 2018. Performance against the group targets was as follows:

MEASURE	PERFORMANCE OUTCOME
Group EBIT	Between threshold and target
Group Cash Flow from operating activities	Below threshold

Bonuses for 2017 will pay-out, on average, at 35% of the maximum for the Board of Management, and 31% of the maximum for the President & CEO. The bonuses will be paid in March 2018.

Short-term incentive for 2018 performance

There are no proposed changes to the operation of the short-term incentive plan for 2018. The performance measures, weightings and maximum limits will be the same as those applying in 2017.

Long-term incentive schemes

The table below sets out details of the realised and outstanding awards under Wärtsilä's long-term incentive scheme. The scheme applies to Wärtsilä's senior management, consisting of approximately 100 directors, including the Board of Management. The value delivered is based on the share price development during the three-year performance period.

Performance period	2014-2016	2015-2017	2016-2018	2017-2019
Number of bonus rights granted	1 846 000	2 076 000	1 962 000	2 139 000
Starting share price, EUR	37.05	44.25	47.47	48.57
Measurement period for comparison share price	Q4 2016 + 50% of dividends paid	Q4 2017 + 100% of dividends paid	Q4 2018 + 100% of dividends paid	Q4 2019 + 100% of dividends paid
Maximum value per bonus right, EUR	10.00	10.60	13.84	18.21
Final comparison share price, EUR	42.17	60.10	-	-
Final value per bonus right, EUR	5.12	10.60	-	-
Payment date	February 2017	February 2018	February 2019	February 2020

The bonus rights are paid-out in cash, but the President & CEO and the Board of Management members are expected to acquire Wärtsilä shares with 50% of the net value received until they have achieved their required share ownership level.

In January 2018, the Board of Directors decided on the long-term incentive plan for 2018-2020. The plan operates according to the same principles as in the previous years.

Board of Management's share ownership in Wärtsilä on 31 December 2017

Board of Management	No. of shares
Jaakko Eskola	8 481
Change in 2017	2 061
Pierpaolo Barbone	7 277
Change in 2017	1 677
Päivi Castrén	4 933
Change in 2017	963
Javier Cavada Camino	0
Change in 2017	0
Kari Hietanen	5 211
Change in 2017	937

Roger Holm	0
Change in 2017	0
Atte Palomäki	4 831
Change in 2017	962
Marco Ryan	0
Change in 2017	0
Marco Wirén	4 905
Change in 2017	1 265

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 2017 were found to be well balanced and in accordance with market practices. The Board of Directors was satisfied that the rewards paid during the year were appropriate given the company's performance.

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 2017:

- 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 718 thousand for the financial period that ended on 31 December 2017. 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	2017	2016	2017	2016	2017	2016
Mikael Lilius, Chairman	21	23	132	132	153	155
Tom Johnstone, Deputy Chairman	9	11	99	66	108	77
Maarit Aarni-Sirviö	12	16	66	66	78	82
Kaj-Gustaf Bergh	8	8	66	66	74	74
Karin Falk	5	-	66	-	71	-
Johan Forssell	6	-	66	-	72	-
Risto Murto	13	15	66	66	79	81
Markus Rauramo	15	20	66	66	81	86
Until 2 March 2017						
Sune Carlsson	1	8	-	99	1	107
Gunilla Nordström	1	8	-	66	1	86

Fees paid in Wärtsilä shares in 2017

Board of Directors	No. of shares
Mikael Lilius, Chairman	945
Tom Johnstone, Deputy Chairman	709
Maarit Aarni-Sirviö	472
Kaj-Gustaf Bergh	472
Karin Falk	472
Johan Forssell	472
Risto Murto	472
Markus Rauramo	472

Board of Directors' share ownership in Wärtsilä on 31 December 2017

Board of Directors	No. of shares
Mikael Lilius, Chairman	19 359
Change in 2017	945
Tom Johnstone, Deputy Chairman	2 069
Change in 2017	709
Maarit Aarni-Sirviö	10 282
Change in 2017	472
Kaj-Gustaf Bergh	9 504
Change in 2017	472
Karin Falk	472
Change in 2017	472
Johan Forssell	472
Change in 2017	472
Risto Murto	2 452
Change in 2017	472
Markus Rauramo	5 006
Change in 2017	472