

Wärtsilä Corporation Annual Report 2017

**Enabling
sustainable
societies
with smart
technology**

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This is Wärtsilä

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CEO review

The year 2017 developed in line with our expectations. Increased power plant deliveries supported some growth in net sales, while profitability was in line with the previous year. The highlight of the year was the order intake growth seen in all of our business areas. This provides a sound foundation from which we can develop our business in the coming years.

Services' net sales remained solid, thanks to steady demand for power plant related service work, and healthy activity in the cruise and gas carrier markets. While this performance was satisfactory, bearing in mind the challenges we faced in the offshore and merchant segments, our ambitions are still higher. Central to achieving growth is developing stronger partnerships with our customers, and providing them with greater value in the form of new service concepts, and through utilising the opportunities provided by digitalisation. The strategic partnership with Carnival Corporation, announced in the beginning of the year, is a compelling demonstration of where we are headed. The agreement emphasises continuous joint improvement efforts, and targets the increased safety, reliability, and operational efficiency of Carnival's cruise vessels. This will include using the latest digital solutions.

In the energy industry, many emerging countries are now prioritising increased access to clean and reliable power to support their economic and social growth. Meanwhile, in the developed markets, the demand for operational flexibility is becoming increasingly relevant. This is largely because the decline in solar and wind prices is increasing the competitiveness of renewable sources of energy. These converging trends have together created a strong demand environment for our energy solutions during the year. I am pleased that there has been an increase in orders, both for our traditional engine-based plants, and in newer business areas, such as LNG-terminals and solar PV plants.

2017 saw a recovery in vessel contracting from the record low levels of the previous year. Although overcapacity and a lack of financing continue to burden the marine industry, an increased confidence in economic growth resulted in improved sentiment, particularly among our merchant customers. This, in combination with a favourable vessel mix and our broad offering of solutions, was supportive of growth in Marine Solutions' orders received.

During the year, we launched our company purpose – enabling sustainable societies with smart technology – to provide an even stronger sense of direction to our work, both now and in the future. Central to the purpose is our commitment to promoting a low emissions economy, and providing intelligent ways of producing and using energy. Equally important is being at the forefront in developing new technologies and new business models that create increased value for our customers.

Indicative of this is our acquisition of Greensmith, which was a strategic response to the transformation that is taking place in the energy industry as the world moves from traditional baseload generation to renewable energy. Through Greensmith, we strengthen our system integration capabilities, and expand our offering to include storage technology and advanced software. This complements our portfolio of flexible power generation solutions, and supports our Smart Energy vision by positioning us at the very core of future energy systems.

Our Smart Marine vision on the other hand, emphasises the opportunities offered by connectivity and digitalisation to promote safety, alleviate environmental impact, and improve efficiency. Our innovations will increasingly centre around this vision. Prime examples from 2017 include the introduction of our marine hybrid solution and the development of our competences in intelligent shipping, for instance through the acquisition of Guidance Marine. By emphasising collaboration with our customers and partners, and supported by our deep industry know-how and broad offering of solutions, we will continue to develop the innovations and competences needed to lead the transformation into a new era of shipping.

Protection of the environment, and supporting the general well-being of the community and its people, are at the heart of a sustainable society. To this end, Wärtsilä is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment, and anti-corruption. Fostering an inclusive corporate culture by respecting diversity, providing equal opportunities, and demonstrating high ethical standards is high on our agenda. Ensuring safe working conditions is another priority, and the decline in our lost time injury frequency shows that we are moving in the right direction. However, reaching our target of zero lost-time injuries will require an even stronger effort to develop safety consciousness throughout the organisation.

Looking ahead, I am confident that an essential element for creating customer value will be our continued focus on developing smart technology and integrating new business models into our offering. Our shareholders, stakeholders and society at large will also benefit from this approach. By emphasising energy efficiency, lifecycle optimisation, and innovative solutions in our offering, we shall be able to reach our long-term target of profitable growth. In terms of 2018, we expect our demand outlook to improve somewhat. We see a good demand environment for our Services business, thanks to growth opportunities related to our portfolio of long-term agreements and the increasing technological sophistication of our installed base. The demand for our energy solutions is anticipated to be at a good level, supported by a healthy project pipeline and favourable market trends. In the marine industry we expect market conditions to improve, and this will support a solid demand outlook.

I would like to take this opportunity to thank our personnel for their continued dedication and for enabling us to achieve our common goals. To our customers, I say thank you for your trust in our solutions and services, and finally yet importantly, I thank our shareholders for their confidence in our continued future success.



Jaakko Eskola
President & CEO

Key figures

MEUR	2017	10-12/2017	7-9/2017	4-6/2017	1-3/2017	2016	2015
Net sales	4 923	1 445	1 178	1 292	1 007	4 801	5 029
Services	2 215	654	526	546	490	2 190	2 184
Energy Solutions	1 401	425	324	412	239	943	1 126
Marine Solutions	1 307	366	328	334	279	1 667	1 720
Depreciation, amortisation and impairment	-134	-42	-30	-30	-33	-138	-124
Comparable operating result ¹	590	244	135	126	86	583	612
Comparable operating result ¹ , %	12.0	16.9	11.4	9.7	8.5	12.1	12.2
Profit before taxes	506	215	114	103	74	479	553
Earnings per share, EUR	1.95	0.86	0.43	0.38	0.28	1.79	2.25
Order intake	5 644	1 514	1 354	1 363	1 413	4 927	4 932

MEUR	2017	31.12.2017	30.9.2017	30.6.2017	31.3.2017	2016	2015
Balance sheet total	5 607	5 607	5 365	5 264	5 382	5 391	5 589
Interest-bearing liabilities, gross	619	619	729	637	670	629	724
Cash and cash equivalents	379	379	292	332	403	472	334
ROI, continuing operations, %	18.9	18.9	19.5	19.5	16.9	17.1	21.0
Gearing	0.10	0.10	0.20	0.14	0.13	0.07	0.17
Order book, end of period	5 064	5 064	5 075	5 065	5 096	4 696	4 882
Year-end market capitalisation	10 375	-	-	-	-	8 418	8 314
Personnel, number at end of period	18 065	18 065	17 859	17 783	17 832	18 011	18 856

¹ Figures exclude items affecting comparability.

Wärtsilä in brief

Wärtsilä is a global leader in smart technologies and complete lifecycle solutions for the marine and energy markets. By emphasising sustainable innovation, total efficiency and data analytics, Wärtsilä maximises the environmental and economic performance of the vessels and power plants of its customers. In 2017, Wärtsilä's net sales totalled EUR 4.9 billion with approximately 18,000 employees. The company has operations in over 200 locations in more than 80 countries around the world. Wärtsilä is listed on Nasdaq Helsinki.

Services

Wärtsilä Services creates lifecycle services for its customers, enhancing their business – whenever, wherever. Wärtsilä provides the industry's broadest range of services for both shipping and power generation. The service solutions range from spare parts and basic support to ensuring maximised lifetime, increased efficiency and guaranteed performance of customer's equipment or installation – in a safe, reliable, and environmentally sustainable way.

Energy Solutions

Wärtsilä Energy Solutions is a leading global systems integrator offering a broad range of environmentally sound solutions. Wärtsilä supplies ultra-flexible internal combustion engine based power plants, energy storage systems, and utility-scale solar photovoltaic (PV) power plants, as well as liquefied natural gas (LNG) terminals and distribution systems. These flexible and efficient solutions provide superior value to customers and enable a more sustainable and modern energy system for future generations.

Marine Solutions

Wärtsilä Marine Solutions enhances the business of its marine and oil & gas industry customers by providing innovative products and integrated solutions that are safe, environmentally sustainable, efficient, flexible, and economically sound. Being a technology leader, and through collaboration and knowledge sharing, Wärtsilä is able to customise solutions that provide real value to its customers around the world.

Strategy

Wärtsilä's purpose is to enable sustainable societies with smart technology. The demand for clean and flexible energy and the need for efficient and safe transportation are increasingly affecting the way that customers operate. This forms the basis for Wärtsilä's offering of smart solutions to the marine and energy markets. With an integrated portfolio of services, systems and products, the company is well positioned to respond to the demand for energy efficient and innovative solutions. The emphasis is placed on optimising installation performance throughout the lifecycle, using data analytics and artificial intelligence to support customers' business decisions. Wärtsilä's digital transformation will provide increased customer value through a new era of collaboration and knowledge sharing. A strong presence in key markets and a superior global service network support the company's profitable growth ambitions.

With its flexible production and supply chain management, Wärtsilä constantly seeks new ways to maintain high quality and cost efficiency – often in co-operation with customers and leading industrial partners. The investments in R&D and the focus on digitalisation create a strong foundation for securing and strengthening a position at the forefront of market innovation. This innovative culture, together with a constant emphasis on safety, diversity, and high ethical standards, attracts skilled and committed people and creates the basis for a high performing organisation. The implementation of operational excellence ensures that Wärtsilä is easy to do business with, and drives increased productivity and efficiency throughout the lifecycle.

Smart energy

Wärtsilä's objective is for customers to recognise the company as the leading energy systems integrator, providing all the essential technologies, services, and solutions for sustainable and reliable power systems.

The energy landscape is experiencing a paradigm shift, thus creating a more complex operating environment for the industry. The world is moving from traditional baseload generation to renewable energy, while storage technology is disrupting old design

principles and the importance of gas is increasing. Simultaneously, the role of consumers in energy production is increasing. Digitalisation brings new opportunities for predicting consumption and maintenance needs and can deliver improved competitiveness.

Wärtsilä is at the very core of future energy systems. The company's engine power generation solutions provide a unique combination of energy efficiency, and both fuel and operational flexibility. Wärtsilä supports the continued development of the gas infrastructure with small and medium size LNG terminals and liquefaction solutions. Responding to the increasing use of renewable power sources, the company seeks growth by offering solar PV power plants, energy storage solutions, and advanced integration software. The aim is to continuously develop optimal and environmentally sound solutions for customers by focusing on Wärtsilä's core competences; market and system understanding, EPC capabilities, systems integration, and lifecycle optimisation.

Smart marine

Wärtsilä's aim is to lead the industry's transformation towards a Smart Marine Ecosystem. Building on the sound foundation of being a leading provider of innovative products, integrated solutions, and lifecycle services to the marine and oil & gas industries, Wärtsilä aims to unlock new customer values through connectivity, digitalisation and smart technology.

The marine industry is moving towards a future that is increasingly connected. The opportunities offered through smart technology will foster a new era of collaboration and knowledge sharing with customers, suppliers, and partners. Industry players are faced with major sources of inefficiency that impose a significant negative impact on business operations and profitability, the three most notable being overcapacity, inadequate port-to-port fuel efficiency, and time wasted waiting when entering ports and other high traffic areas. Eliminating these inefficiencies forms the basis of the Wärtsilä marine strategy towards ecosystem thinking. Wärtsilä sees four primary forces that will re-shape the industry. Shared capacity will improve fill rates and reduce unit costs; big data analytics will optimise both operations and energy management; intelligent vessels will enable automated and optimised processes; and smart ports will result in smoother and faster port operations.

Wärtsilä is ideally positioned, together with its customers and partners, for positive disruptive development and to lead the transformation into a new era of shipping. Building on Wärtsilä's broad portfolio of products, systems, solutions, and lifecycle services, and its vast installed base and industry know-how, the company will continue to develop the smart technologies, business models, and competences needed to create a Smart Marine Ecosystem.

By applying smart technology and performance optimisation services, Wärtsilä aims to deliver greater efficiencies, minimised climate impact and a higher safety to the shipping industry, leading to more sustainable, safe and profitable operations for ship owners and operators around the world. The ultimate goal is to enable sustainable societies with smart technologies.

Sustainability

Wärtsilä's aim is to meet shareholder expectations and contribute toward the well-being of society. This requires efficient, profitable, and competitive company operations. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

Wärtsilä's overriding promise is to supply technologies and services that offer high efficiency with low environmental load. Our objective is to continuously improve the environmental performance of our products and services taking into account the lifecycle perspective, as well as to maintain technological leadership through R&D and by utilising new technologies and collaborating with our customers and other stakeholder groups. In doing this, we help our customers and society at large to meet the goals of the tightening global environmental regulations and guidelines.

Wärtsilä acts as a good corporate citizen wherever we are active. Our business operations and relations with our stakeholders are governed by our Code of Conduct. Wärtsilä is a responsible employer, and we seek to offer our employees an interesting and exciting workplace where openness, respect, trust, equal opportunities, and scope for personal development prevail. A further aim is to offer a hazard-free working environment to our employees and contractors, and to minimise the health and safety risks associated with the use of our products and services. Supply chain management and development are integral elements of our operations.



Targets

Financial targets

Net sales

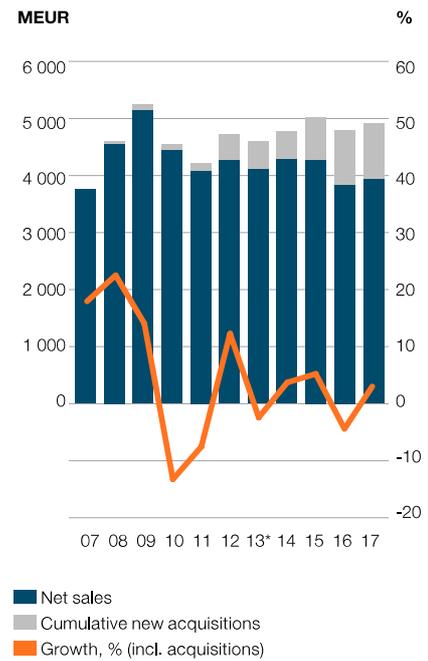
Target

Wärtsilä's target is to grow faster than global GDP.

Development

In 2017, net sales increased by 3% to EUR 4,923 million. Wärtsilä's CAGR 2007-2017 was 2.7%.

Growth over the cycle



World nominal GDP growth 2007–2017 averages 3.2% USD denominated (source: IMF).

* Restated, figures include continuing operations.

Profitability

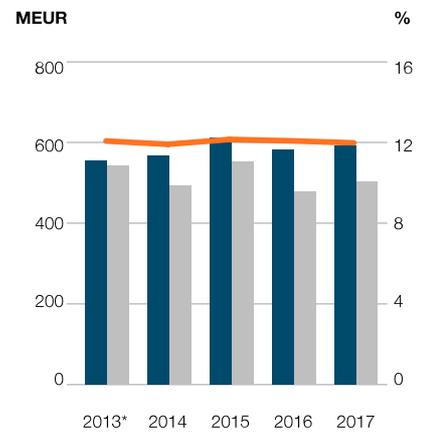
Target

Wärtsilä's operating profit margin (EBIT%) target is 14% at the peak of the cycle. At the trough of the cycle, the target is to keep the operating profit margin above 10%.

Development

In 2017, the comparable operating result was EUR 590 million, which represents 12.0% of net sales.

Result



■ Comparable operating result
■ Profit before taxes
— Comparable operating result, %

* Restated, figures include continuing operations.

Capital structure

Target

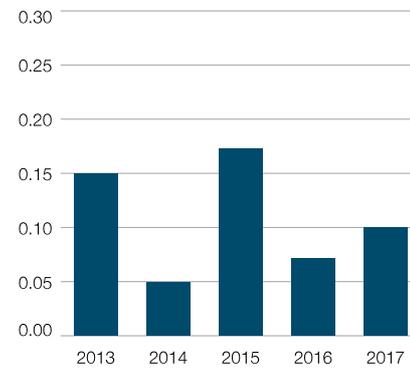
Wärtsilä's target is to maintain gearing below 0.50.

Development

In 2017, gearing was 0.10.

Gearing

MEUR



Dividend

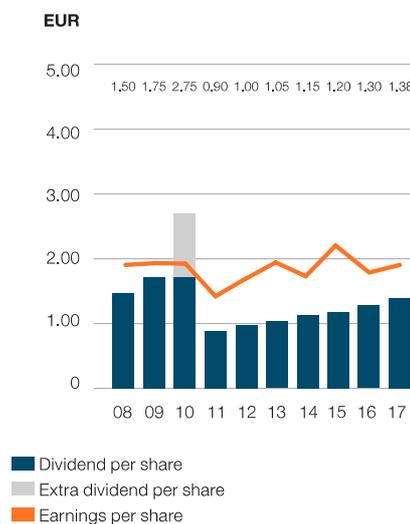
Target

Wärtsilä's target is to pay a dividend of at least 50% of earnings over the cycle.

Development

The Board of Directors proposes that a dividend of 1.38 euro per share be paid for the financial year 2017, which represents 70.8% of operational earnings.

Dividend



The free share issue approved by Wärtsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wärtsilä shares to 197,241,130. Earnings per share in comparison periods 2008–2010 have been adjusted to reflect the increased number of shares.

Sustainability targets

Target	Schedule	Status
<p>ENERGY SAVINGS: Reduce energy consumption by at least 7% in terms of absolute consumption (GWh) from 2015 levels by 2025.</p>	2025	By the end of 2017, energy savings of 942 MWh were achieved, representing 3.2% of the final target.
<p>ETHICAL BEHAVIOR: Ensure commitment to the Code of Conduct throughout the organisation (Code of Conduct training coverage 100%).</p>	2020	Training records are continuously monitored. At the end of 2017, the Code of Conduct training programme coverage was 89.3% of all employees.
<p>OCCUPATIONAL SAFETY: Reach the long-term goal of zero injuries.</p>	2020	In 2017, the positive trend in improving, consolidating, and spreading a safety culture within Wärtsilä continued. The corporate lost-time injury frequency rate target for the year was 2.35. The result 2.48 was above the target, however, it represents a 4% improvement compared to the previous year's result (2.59). As a highlight, proactive near miss and hazard reporting increased by 49% in 2017 compared to 2016.
<p>CLIMATE CHANGE: Prepare an analysis of the impact of the Paris Climate Change Agreement on Wärtsilä.</p>	2018	During 2017, Wärtsilä monitored changes in international climate policy and updated its analysis of the greenhouse gas reduction ambitions of key nations. Further steps for internal work were planned.
<p>SUSTAINABLE POWER SYSTEMS: Contribute to the development of an affordable, reliable, sustainable, and modern power system worldwide.</p>	2020	In 2017, some 3,800 MWs of new modern, highly efficient gas and liquid fired Smart Power Generation plants were sold. This represented substantial growth from previous years. Additionally, Wärtsilä launched the world's most efficient gas engine 31SG with its first 31SG power plant sold to the USA. Wärtsilä also acquired Greensmith, a leading energy storage company, and proceeded in the development of hybrids.

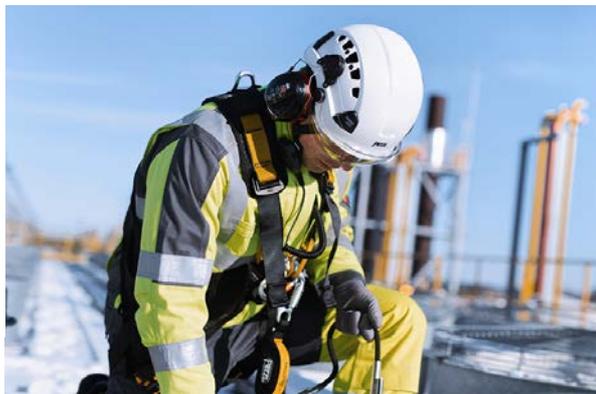
<p>SMALL-MEDIUM SCALE LNG SOLUTIONS: Become a global actor in the LNG value chain, which develops opportunities, creates solutions, and builds infrastructure for clean-burning LNG to replace liquid fuel.</p>	2020	<p>In 2017, Wärtsilä signed a contract to supply an LNG terminal to Hamina. In addition, the mechanical completion, and the successful unloading of the first shipment of LNG, at the Tornio Manga LNG terminal were achieved. Wärtsilä extended its technologies in the biogas value chain by acquiring Puregas, a company that delivers biogas upgrading solutions. Wärtsilä also delivered regasification solutions for FSRU vessels.</p>
<p>SOLAR AND HYBRID SOLUTIONS: Solar and solar hybrid power plants for cleaner energy and fuel savings. Delivery of 200 MW solar power by the end of 2018.</p>	2018	<p>163 MWp worth of deals were announced during 2017.</p>
<p>CLIMATE CHANGE: Reduce greenhouse gas (GHG) emissions from gas engines by 15% from 2015 to 2020.</p>	2020	<p>During 2017, Wärtsilä identified and determined the technology packages for the reduction of greenhouse gas emissions. The product specific implementation schedules were also decided. Greenhouse gas emissions from gas engines were reduced by 7% from the baseline year.</p>
<p>DECARBONISATION OF TRANSPORT: Contribute to the development of more sustainable transportation through gas based and other technologies.</p>	2020	<p>The W31 engine with the best efficiency in the market was introduced. Also, the Wärtsilä HY hybrid concept combining engines and batteries was introduced. Wärtsilä raised its market share for orders of liquid natural gas fuel tanks from 36% to 50% (tank capacity) compared to 2016.</p>
<p>CLIMATE CHANGE: Reduce over 300,000 tons of annual CO₂ from vessels with the help of Eniram solutions.</p>	2020	<p>The estimated reductions of CO₂ emissions in 2017 were approximately 175,000 tons.</p>
<p>WELL-BEING AT WORK - CAREER: Balance between external and internal recruitments: More than 50% of the open vacancies filled from internal applicant pool, including promotions and lateral moves.</p>	2020	<p>In 2017, 45% of open vacancies were filled through internal selections for job levels 3 and up, and 55% through external selections.</p>

PERSONNEL DEVELOPMENT: Development discussion coverage 100%.	2020	By the end of 2017, altogether 96.4% of the company's employees had completed development discussions.
DIVERSITY: Increase the share of female employees to 20%.	2020	In 2017, the share of female employees was 16%.
SUPPLIER LIFECYCLE MANAGEMENT: Risk-based supplier assessment and management process in use by 2018: <ul style="list-style-type: none"> • Phase I: new suppliers by 2017 • Phase II: existing suppliers by 2018 	2018	In 2017, Wartsilä defined the requirements and created a prototype for a Supplier Relationship Management tool. Additionally, criteria for supplier compliance and performance levels were determined. The Supplier Relationship Management tool supports the risk-based supplier assessment and will be taken into use during 2018, starting with the assessment of new suppliers.
SUPPLIER MONITORING: Reach the following rating coverage of suppliers: <ul style="list-style-type: none"> • 96% of direct supplier spend rated • 70% of indirect supplier spend rated • 75% of local supplier spend rated. 	2020	In 2017, the rating coverage of direct supplier spend was 94%. The rating coverage of indirect supplier spend was 73%, and of local supplier spend 77%.

Sustainability highlights

26.1.

“Leader in safety, leader in business” – Wärtsilä’s Board of Management kicked off the new ZeroMindset leaders’ occupational safety engagement programme.



10.2.

Wärtsilä joins Seabin Project in the battle against ocean plastics.

20.2.

Wärtsilä contracted to supply its first ever gas-fired power plant to China.



22.3.

Wärtsilä contracted to supply a solar PV plant to Burkina Faso – creating Africa’s largest engine-solar PV hybrid power plant.

15.5.

Wärtsilä acquires Greensmith Energy Management Systems Inc. enabling Wärtsilä to expand its footprint in the energy storage market and position itself as a leading global energy systems integrator.



30.5.

A new era of technological evolution arrives with the first order for the Wärtsilä HY, a hybrid power module that combines engines, an energy storage system, and power electronics.

31.5.

Wärtsilä introduces its Eniram SkyLight 2.0 monitoring & predictive analysis system update. The Eniram SkyLight 2.0 adds nautical maps, weather layers, and route importation to make predictive analysis and proactive planning more available. The updated system can visualise a vessel's route from economic, environmental, and safety perspectives.



30.6.

Wärtsilä joins the Global Industry Alliance, a new public-private partnership initiative of the IMO, which aims to bring together maritime industry leaders to support an energy efficient and low carbon maritime transport system.

4.7.

Wärtsilä will enhance the reliability of the world's largest offshore wind farm in the North Sea. Wärtsilä low voltage switchboards will be installed for the world's first offshore reactive compensation station. The reactive compensation station enables the high voltage AC system to work with cable lengths longer than those previously used for offshore wind applications.

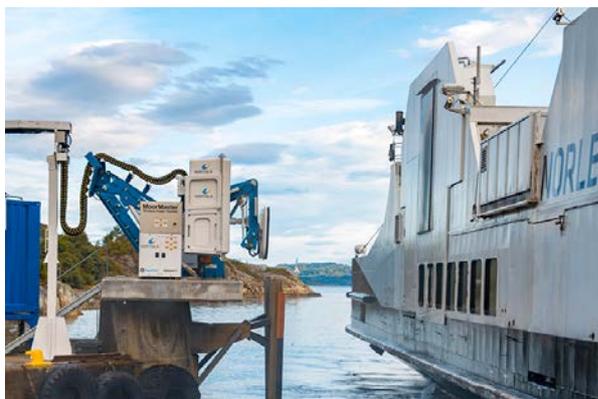


7.9.

Wärtsilä included in the Dow Jones Sustainability Indices (DJSI).

12.9.

Wärtsilä partners with AW-Energy to add wave power generation to its capabilities as an energy system integrator.



20.9.

Wireless charging of a hybrid coastal ferry successfully tested.

24.10.

Wärtsilä to build an energy storage system for Singapore's Energy Market Authority and SP Group. Energy storage capacity will support Singapore's use of solar power by providing energy reserves and reducing peak demand. It will also assist in evaluating the performance of ESS technologies in the country's hot and humid climate, its impact on the electricity grid, and to establish future guidelines for ESS deployments.



31.10.

Wärtsilä combines competences to ensure ultra-silent propulsion for a research vessel.

15.11.

Introduction of the Wärtsilä 31SG engine raises simple-cycle efficiency to an entirely new level.



4.12.

Wärtsilä Voyage Emissions Reduction (VER) system saves oil tanker cargo losses, fuel costs, and the environment. The system effectively eliminates the problem of evaporated cargo and resulting volatile organic compound (VOC) emissions from tankers during laden voyages. The VER system reduces VOC emissions by up to 75 percent.

Services

Wärtsilä Services supports its customers throughout the lifecycle of their installations by optimising efficiency and enhancing their operations, thus helping to grow their business. Wärtsilä's service network of approximately 11,000 professionals in 160 global locations is unmatched in the marine and energy delivering services to more than 12,000 customers every year.

Wärtsilä Services' portfolio of solutions and services is the broadest in the industry, ranging from supplying spare parts to optimising customer operations and providing performance guarantees. Wärtsilä is committed to providing high quality, expert support, and to making its services available in the most environmentally sound way possible, whenever, wherever. By developing close relationships with customers, Wärtsilä enables an in-depth understanding of their business so as to extend the value of its services accordingly.

The Services business generates value for customers by providing reliable performance, improving environmental efficiency, and by optimising the performance of their assets. By providing analytics of installations, operational transparency is ensured, performance improved, and customers' revenue potential increased. Digitalisation means leveraging new technologies, enhancing the core business, and building capabilities enabling installation-as-a-service future offering. Wärtsilä's competences are constantly being developed in order to extend the service capabilities to cover multiple brands of equipment.

While working together with customers, Wärtsilä also believes it can make a difference in those markets in which the company operates by actively harnessing its capabilities to shape the transformation taking place in the marine and energy industries. This is done by providing a cleaner, safer and more energy intelligent environment to live in, taking an active role in shaping the market and working to fulfil Wärtsilä's purpose in enabling sustainable societies with smart technology.

The service offering

Wärtsilä Services creates lifecycle value propositions together with its customers, based on the broadest portfolio of solutions and services. A comprehensive knowledge of the customer's business and operational challenges, combined with technical expertise, forms the basis for being able to offer different levels of support:

- Full maintenance and performance monitoring, utilising both spare parts and services (field services, condition based maintenance, dynamic maintenance planning).
- Optimising customers' businesses via analytics, proactive recommendations, efficiency improvements (e.g. fuel cost savings), and shared performance targets for the operation and maintenance of their equipment.
- Guarantees for the operational reliability, performance and uptime of customer assets.
- Spare parts for equipment, with an emphasis on excellent delivery performance and the availability of a broad range of parts.

Areas of expertise include:

Lifecycle solutions

Wärtsilä Services' lifecycle solutions enhance asset performance and help business growth by utilising digital innovations and advanced data analytics to create a holistic approach that goes beyond maintenance and servicing. Lifecycle solutions offer measurable and guaranteed benefits in a safe, reliable and environmentally friendly way. These include increased competitiveness in daily operations, improved asset and business availability and performance, productivity gains and cost benefits, as well as maximised installation life. New to the agreement offering is the additional capability connected to renewables, including PV Solar and Energy Storage technology.

Wärtsilä tailors its lifecycle solutions to enable customers to choose from different levels of partnership agreements. The scope of the agreements may vary from covering every aspect of day-to-day operations and related maintenance and administration tasks, to guaranteed asset performance solutions where Wärtsilä guarantees the operational reliability, performance and uptime of the customer's assets.

Wärtsilä Genius services

Wärtsilä Genius services utilise the advantages available from connectivity and real-time data gathering to optimise operations, deliver more value, and enable growth. A tailored security support for the installation helps keep industrial control systems secure and compliant.

Eniram services

Eniram – a Wärtsilä company – provides the marine industry with leading insights for asset, operational, and commercial shipping management. Eniram solutions range from single vessel services to comprehensive fleet wide solutions to maximise efficiency through digital insights, cost savings, and maximising overall profitability, while reducing emissions that harm the environment.

Service projects

Project management capabilities enable Wärtsilä to optimise the performance of its customers' installations through upgrades, modernisations, fuel conversions, and safety solutions.

Engine services

Wärtsilä provides complete global services for medium- and low-speed diesel, gas, dual- and multiple-fuel engines, and related systems. The broad extent of the offering ranges from standard engine overhauls, to optimisation retrofits that improve the performance of older installations.

Customers operating with multiple engine brands are served by QuantiServ, which offers specialised, fast and reliable support, as well as maintenance and repair services. Specialised professionals provide re-manufacturing and in-situ services, as well as flexible repair and overhaul services for auxiliary engines and generating sets.

Turbocharger services

The offering includes spare parts, maintenance and repair services, and versatile conversion and upgrade solutions for turbochargers – provided by a global network of certified turbocharger workshops. Turbocharger maintenance is essential for the overall performance of the engine.

Propulsion services

A complete range of services to maintain performance throughout the lifecycle of propulsion systems. Parts, repairs, maintenance, modernisation solutions, and efficiency upgrades are also provided in order to keep propulsion systems running powerfully and efficiently.

Environmental services

Many of Wärtsilä's products and services are designed to have a direct and positive environmental impact, either by improving efficiency or by eliminating or reducing polluting emissions from customer processes. These solutions include, for example, fuel conversions, low NOx solutions, upgrades or modernisations, ballast water management systems, and exhaust gas cleaning systems.

Seals & Bearings services

The company offers a broad range of sealing, bearing, and stern tube solutions in the form of integrated systems, packages, and products. These services offer lifecycle efficiency and reduced risk, and are environmentally sustainable.

Hydro & Industrial services

The offering includes seals, bearings and associated equipment and lifecycle services focusing on modernisations and retrofits to optimise operational performance for hydropower, tidal power, and industrial power applications.

Services' operating environment

Wärtsilä Services operates in the marine, energy and oil & gas industries, as well as in hydro and industrial related businesses. The main driver for the Services business is the size and development of Wärtsilä's installed equipment base, which consists of

propellers, engines and other products. However, the offering and competences are continuously being developed in order to extend the service capabilities to cover multiple brands of equipment.

The market conditions faced by Wärtsilä's end customers have a direct impact on the utilisation rate of installations in operation, and dictate the need for services relating to maintenance, lay-down, or redeployments. Throughout the lifecycle of any installation, there are various maintenance requirements, as well as possible needs for upgrades or life-extension services. Wärtsilä's customers may also face the need for retrofits and upgrades of their equipment based on structural changes to their operating environments, such as changes in the availability or pricing of fuels, regulatory developments, or increased safety requirements.

The interest for lifecycle solutions in the form of partnership agreements is evident in the marine and oil & gas markets, as well as in the energy industry. Such agreements further the optimisation of both maintenance and performance, thereby improving operational efficiency, reducing costs, and creating business growth. Real time monitoring and analytics are driving further opportunities for using data to optimise customer business performance

Competition and market position

Wärtsilä has a strong position in servicing equipment that has been sold and designed by Wärtsilä. The key differentiators are a truly global presence with a fully owned service network and the capability to provide support and optimise performance throughout the lifecycle of the installation. Only a few other players are able to provide such a broad service offering globally; these being other Original Equipment Manufacturers (OEM) focusing on their own equipment brands, and independent service companies.

Competition is, therefore, fragmented in nature and consists mainly of local players with a limited offering scope, such as parts traders, repair yards, local workshops, component suppliers for spare parts (non-OEM), and field service businesses. Wärtsilä is constantly developing its global footprint and local operations in order to serve its customers with superior quality, while at the same time meeting increased demands for a speedy response.

In the energy industry, the competition for lifecycle solutions comes from a few regional players capable of offering plant operational services. In the marine market, the competition for lifecycle solutions is even more fragmented with some ship management companies serving this segment.

Digitalisation is expected to bring new types of players to the market, leading to new types of potential disruption. However, it also provides opportunities for structured players developing ecosystems based on increased collaboration and connectivity.

Services' strengths

- Long-term relationships with customers and an in-depth understanding of the operation of their assets.
- A complete lifecycle service offering
- An unmatched global service network
- The capability to deliver operational and asset performance optimisation globally
- State-of-the-art digital solutions for enhancing customer businesses based on optimising, predicting and solving, utilising the benefits of real-time data, and data analytics
- Technical support capabilities and know-how
- The track record and capability to deliver complex projects with performance guarantees.

Services and sustainability

As one of the marine and energy industries' leading partners, Wärtsilä Services supplies efficient solutions that can benefit both the customer and the environment.

Environmental compliance

Environmental efficiency should be seen as a holistic process of identifying and planning activities to optimise installation performance and reduce emissions. It starts with analysing the true condition of an installation and optimising the equipment, operations and maintenance to meet the appropriate standards and requirements.

Many of Wärtsilä Services' products and services are designed to have a direct environmental benefit. By eliminating or reducing polluting emissions from customer processes, they are able to continue operating without restrictions in sensitive areas around the world. Wärtsilä provides customers with the tools for enabling compliance with both current and future environmental legislation, helping them contribute towards a clean society.

Energy efficiency provides a competitive advantage

Improving power plant energy efficiency

With up-to-date equipment, well-planned maintenance and skilled operation, a power plant's energy efficiency can be kept at a high level throughout its lifecycle. With customized lifecycle upgrades, its energy efficiency can even be considerably increased. A boost in energy efficiency decreases emissions, thus reducing negative environmental impacts.

Wärtsilä offers a range of solutions for improving the energy efficiency of a power plant – from the replacement of a single component, to complete modernisation or operation and maintenance solutions. A site audit by Wärtsilä's energy efficiency experts helps identify equipment and processes with improvement potential.

Energy efficiency in the marine industry

The overall energy efficiency of a vessel is determined by choices made throughout its lifecycle. Improvements in energy efficiency lead to increased profitability, reduced emissions, and a more sustainable brand image. When looking for ways to improve the energy efficiency of a vessel, optimising its operation and engine and propulsion systems can offer significant opportunities for savings. Utilisation of the latest digital technologies and data intelligence enable continuous monitoring and optimisation of the operations of the entire fleet. Predictive analytics and optimisation systems help the crew and operators to become more energy efficient.

Wärtsilä can develop a holistic optimising strategy that covers the entire lifecycle of a fleet, or provide a customised solution to a specific challenge.

Energy Solutions

Wärtsilä Energy Solutions is a leading global system integrator offering ultra-flexible internal combustion engine based power plants, energy storage systems, and utility-scale solar PV power plants, as well as LNG terminals and distribution systems. These flexible and efficient solutions offer superior value to customers and provide access to a more clean and modern energy system for future generations. This supports Wärtsilä's purpose in enabling sustainable societies with smart technologies. As of 2017, Wärtsilä had over 65 GW of installed power plant capacity in 177 countries around the world.

Wärtsilä serves three main customer segments

Wärtsilä Energy Solutions' three main customer segments are Utilities, Independent Power Producers (IPPs), and Industrial customers.

Utilities supply electricity and gas to residential, commercial, and industrial end users. They invest in gas infrastructure projects and various types of power plants to ensure adequate load coverage, and the right palette of cost-effective and reliable products and services for their customers.

IPP's are financial investors investing in the gas infrastructure, power plants, and in selling the generated power to utilities. Their investments are return driven, and as with utilities, their technical requirements are application driven.

Industrial customers are mainly private companies with energy intensive production operations, such as cement or mining facilities. By investing in captive power, they are able to achieve lower energy costs and can be prepared for any grid reliability issues, thus ensuring security of supply. Wärtsilä serves the top end of this customer group, i.e. large industries requiring a relatively high electrical load.

Focus on flexibility

Wärtsilä's engine based power plants, referred to as being Smart Power Generation, are used for a wide variety of applications. These include base load generation, capacity for grid stability, peaking and load-following generation, and the integration of wind and solar power.

Wärtsilä's power plant solutions are tailored according to the specific requirements of its customers, utilising modular products and services. The delivery scope ranges from equipment deliveries to complete turnkey power plants, all of which are supported by Wärtsilä's superior project management capabilities. The fuel flexibility of Wärtsilä's solutions enables the choice and utilisation of the most feasible fuels, including natural gas and many other gases, as well as most fuel oils. The customer can also choose to run their plant on multiple fuels. In addition to a broad offering of services to support customers through the lifecycle of their installations, Wärtsilä also provides financial services to help them arrange financing and assemble complex projects.

The increasing level of intermittent renewable energy sources in many power systems has created a rapidly growing need for greater flexibility. Gas fuelled power plants represent the most flexible and environmentally sound alternative for balancing the variability of these renewable sources. Smart Power Generation plants provide the best means of support to the power system by offering the highest degree of flexibility, enabling major savings, and creating an optimised response to rapid changes in intermittent generation.

Growth through energy storage, solar, LNG and system integration

The global transition from carbon-intensive energy sources to low carbon fuels, such as natural gas and renewable source solutions, presents Wärtsilä with many opportunities for growth.

As a forerunner in gas and multi-fuel engines, fuel systems, technology and services, Wärtsilä supports the global shift to gas with its LNG infrastructure projects. The company provides a full range of project and lifecycle support services, from small and medium scale LNG liquefaction plants and terminals, to the delivery of complete Equipment, Procurement and Construction (EPC) projects worldwide. Wärtsilä has the capability, in partnership with its customers, to develop the entire LNG value chain. When providing a complete turnkey solution, an LNG terminal can be integrated with a Smart Power Generation power plant, thereby utilising gas as fuel in places where gas was not earlier available.

Responding to the increasing share of renewables within the energy mix, Wärtsilä has developed its offering to include utility-scale hybrid power plants that unite large fuel-based power stations with solar PV power plants. Wärtsilä's hybrid solutions are provided on an EPC basis, with solar PV modules sourced from leading module suppliers. The aim of engine-solar hybrids is to save fuel, which results in lifecycle cost savings and environmental benefits. The two assets are optimised in such a way that the amount of solar energy is maximised, with the engines providing a secondary source of generation. The solar hybrid plant can be part of a retrofit project, where solar modules are combined with an existing Smart Power Generation plant.

The acquisition of Greensmith Energy Inc., USA's leading energy storage software and integration service provider, enables Wärtsilä to take the leading position in the emerging energy storage market and further strengthen its energy system integration capabilities. As a combined solution, Wärtsilä's Smart Power Generation, solar PV and energy storage, together with Wärtsilä's integration capabilities, decades-long experience in delivering complex turnkey engine power plants, and a wide palette of services, will provide sustainable, reliable, and affordable power — particularly in countries and regions with isolated or weak electricity grids.

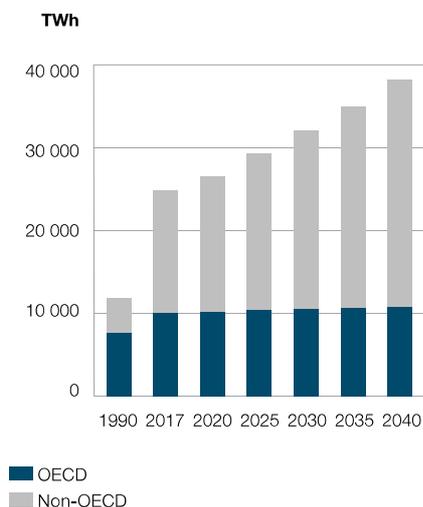
Energy Solutions' operating environment

The main drivers for Wärtsilä's Energy Solutions business are:

- Economic growth, electrification and improving standards of living
- Growth in sustainable energy, reducing carbon emissions
- Rapid growth of intermittent renewable generation and escalating demand fluctuation
- Replacement of other fossil fuels with natural gas
- Ageing installed capacity driving investments in new technologies

Economic growth, improving standards of living, and consequential electrification are jointly resulting in an increase in electricity consumption in non-OECD countries. The demand for flexible baseload power plants, as well as for industrial self-generation, is driven by the price of electricity purchased from the local grid, and by fuel price projections. The introduction of gas supply networks to the emerging markets is resulting in increased demand for gas and dual-fuel driven power plants, solutions in which Wärtsilä has a leading position.

Final electricity generation by region

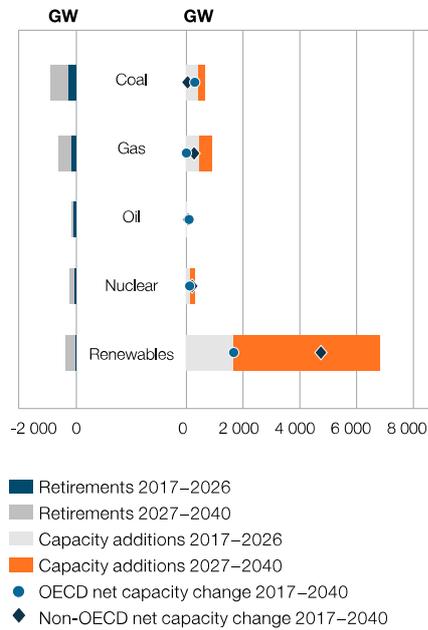


Source: Bloomberg New Energy Outlook 2017

In the OECD countries, tightening emissions legislation is forcing the closure of ageing capacity, which in turn drives the demand for new investments. Another driver is the political emphasis towards low carbon power systems, resulting in rapidly increasing levels of renewable generation. This has already created a substantial need to add flexibility into power systems. Wärtsilä's Smart

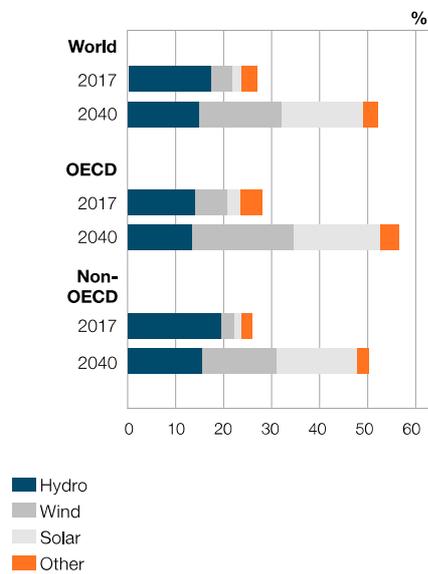
Power Generation power plants represent the most efficient solution for integrating intermittent renewable energy, thereby enabling the transition to a sustainable, reliable, and affordable low carbon power system.

Global power generation capacity, retirements and additions



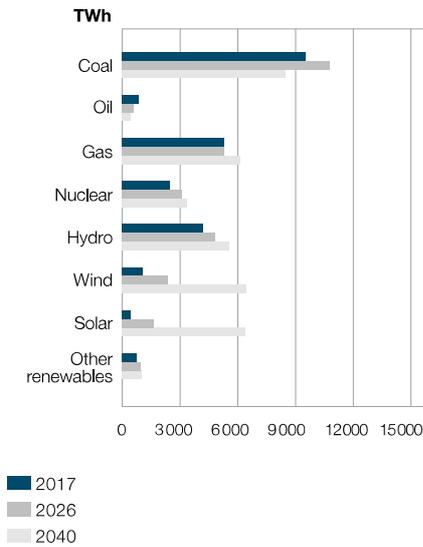
Source: Bloomberg New Energy Outlook 2017

Share of renewables in electricity generation by region



Source: Bloomberg New Energy Outlook 2017

World electricity by type



Source: Bloomberg New Energy Outlook 2017

Energy Solutions' competition

Wärtsilä is facing new types of competition while broadening its offering portfolio. The main competitors in larger gas-fired projects are gas turbine manufacturers, such as GE and Siemens. In smaller gas power plant projects, and in the heavy fuel oil power plant market, the competitors are mainly other internal combustion engine suppliers, such as MAN Diesel & Turbo, GE Jenbacher, Caterpillar (MAK), and Rolls-Royce.

When competing against gas turbines, Wärtsilä's combination of high efficiency, greater fuel flexibility, and superior operational flexibility enables better value propositions to many customer projects. Wärtsilä's systematic market development is shaping the energy sector by utilising a value based market approach, which builds on monetising the benefits of Smart Power Generation.

Wärtsilä's advanced gas and dual-fuel engine technology, optimised modular power plants, superior project management capabilities, and the global service support provided throughout the lifecycle of installations, have led to Wärtsilä's market leading position in the gas and liquid fuel combustion engine power plant markets.

In the utility scale solar PV business, independent, regional, and local EPC companies are the main competitors. The competition in LNG infrastructure projects comes mainly from contracting companies.

When looking at energy system integration, software and battery storage systems, the competition comes from companies such as NEC and Tesla, among others.

Wärtsilä is well positioned in the gas and liquid fuelled power generation market

1-9/2017 market <500MW 25.2 GW (24.8)

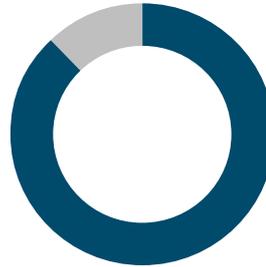


- Wärtsilä, 15% (14%)
- GE, 28% (30%)
- Siemens, 26% (19%)
- MHI, 15% (14%)
- Ansaldo, 14% (19%)
- Other gas turbine manufacturers, 2% (4%)

Market shares are calculated on a 12 months rolling basis, numbers in brackets are from the end of the previous period. Market data includes all Wärtsilä power plants and other manufacturers' gas and liquid fuelled turbine based power plants with prime movers above 5MW, as well as estimated output of steam turbines for combined cycles. The data is gathered from the McCoy Power Report. Other combustion engines not included. In engine technology Wärtsilä has a leading position.

Wärtsilä is the market leader in engine power plants

3,970 MW in 2016



- Wärtsilä, 88% (79)
- Other internal combustion engines, 12% (21)

Energy Solutions and sustainability

The development of a more sustainable energy infrastructure is being driven by climate policies, energy security, and economics. Carbon-intensive energy sources are being replaced by low carbon fuels, such as natural gas and renewable source solutions. Energy savings and efficiency improvements are encouraged, and even legally enforced, at every level. This development is evident on a global scale, even though short-term actions can vary in different regions.

In line with its commitment to sustainability and responsible business conduct, Wärtsilä has taken an active role in the development of markets and solutions. This includes advising national decision makers on changes in the power markets and on relevant technical and commercial norms. In this way, Wärtsilä helps and enables the transition to more sustainable power systems. Wärtsilä strives to maintain a deep understanding of market requirements and drivers, and to develop its solutions in a way that enables them to contribute effectively to improved energy system performance in the various regions of the world.

Wärtsilä's solutions for the energy sector offer a unique combination of flexibility, high efficiency, and sustainability. Many different fuels, including bio-fuels, can be used efficiently, which helps to reduce greenhouse gas emissions. Thus, Wärtsilä's Smart Power Generation technology enables the development of a reliable and sustainable energy infrastructure. The integration of wind and solar energy with flexible Smart Power Generation capacity is already reducing carbon emissions across the globe. In addition to this, Wärtsilä's strong capabilities to offer energy storage, utility-scale solar PV power plants and hybrid solutions, including the most advanced software for energy management, enables maximising the share of renewables into the energy mix, which in turn ensures the widest optimisation of the different assets and the reliability of the system.

Towards sustainable power systems

The challenges associated with climate change require a dramatic decrease in baseload coal based power generation and a major increase in low carbon power generation, including wind, solar, and natural gas fired plants. In future power systems, the majority of the electricity will be generated by wind and solar power, while thermal power generation will be increasingly used for system balancing and back-up. The inherent variability of wind and solar sources requires operational flexibility from the thermal capacity.

Current and earlier power systems were not designed for this purpose, and in order to meet the required capacity, new flexible power generation assets need to be added to the system. Such flexible capacity is based on three elements: operational flexibility, energy efficiency, and fuel flexibility.

Operational flexibility is needed for reacting to the rapid changes in wind and solar output and for sudden power system disturbances. Power plant requirements include the following features:

- Frequent and fast starts and stops without negative wear and tear consequences
- Cyclic operation with high up and down ramp rates
- High full and part load efficiency
- A broad load range
- Minimal CO₂ emissions.

Energy efficiency means that less fuel is needed to generate electricity. In combined heat and power generation, energy efficiency can be significantly improved. Lower fuel consumption results in lower CO₂ levels from power generation.

Fuel flexibility enables the transition to more sustainable fuels whenever they become available. This feature becomes increasingly important when investing in new power capacity, because the plant is not fixed to any particular fuel where more sustainable fuels may be available in the future.

These three elements form the cornerstones of the Smart Power Generation solutions. Such solutions enable maximised utilisation of valuable renewable power, smooth operation of inflexible baseload thermal power plants and, according to the results from future power system modelling, a dramatic reduction in system level CO₂ emissions.

Wärtsilä's Smart Power Generation power plants allow true operational optimisation of the entire energy system in an affordable, reliable, and sustainable way, and offer benefits that include:

- The achievement of extremely low carbon emissions from the entire power system
- Enabling high penetrations of wind and solar power without power system issues
- Enabling baseload plants to operate at high output and efficiency, thereby lowering CO₂ levels
- Enabling wind curtailment to be minimised while helping to avoid negative price developments
- Reducing the amount of spinning reserve required
- Enabling the efficient use of bio gas- and liquid bio-fuel resources.

By removing the abusive cyclic load from plants that are not designed for it and providing high efficiency over a wide load range, Smart Power Generation plants allow the entire system to operate in the most cost effective way and ensure system reliability even during extreme wind variations and contingency situations. They also enable decentralising the intermediate and peak load capacity with flexible plant sizing and installing generating capacity in load pockets to reduce grid losses, while helping to avoid investments in new high voltage grid expansions. The ability to deliver Smart Power Generation solutions on a fast-track basis enables local capacity deficits to be rapidly overcome.

Marine Solutions

Wärtsilä Marine Solutions has a strong position in the marine and oil & gas industries. By providing solutions that are optimised, and both environmentally and economically sound, Wärtsilä enhances the viability and profitability of shipping operations and enables the development of sustainable societies. Wärtsilä's reputation is based on an in-depth understanding of its customers' businesses, its design capabilities, a broad product portfolio, and technological leadership. The organisation is structured into end-to-end business lines with full control over sales, R&D, engineering, procurement, and manufacturing. This enables increased flexibility, fast decision-making, and the optimal utilisation of resources to provide superior customer service.

Serving both shipyards and ship owners

Wärtsilä's marine customers comprise both shipyards and ship owners; the needs and demands of which differ significantly. Product prices, delivery times and reliability, project management, ease of installation, and the supplier's ability to manage large delivery scopes typically affect the decision-making process of shipyard customers. Ship owners, on the other hand, require safe and efficient operations, reliability and support, as well as the availability of services. Their decision-making is also impacted by freight rates, interest rates, and the capital and operating costs of the ship. Both ship owners and operators are increasingly taking other factors, such as environmental compliance and fuel flexibility, into consideration in their decision-making.

Wärtsilä is committed to meeting the needs of both customer groups. Success is achieved through a comprehensive understanding of their businesses, operating models, and requirements. This understanding is backed by an extensive network, a broad product portfolio, and the ability to be involved in the life of the vessel as early as the design process. This enables Wärtsilä to support its customers throughout the lifecycle of their installations with products and solutions that best serve their business interests.

The broadest offering in the industry

Wärtsilä Marine Solutions is active in all the main vessel segments with a broad range of products, services, and solutions. The company understands the particular needs and requirements related to each of these segments – from the initial vessel design choices to everyday operations throughout the vessel's lifecycle. Wärtsilä's portfolio also covers gas systems for land-based installations, such as gas terminals. Innovative and competitive products, delivered efficiently and with high quality, form the basis of Wärtsilä's offering, which consists of:

- Medium-speed diesel and dual-fuel engines
- Propulsion systems and gears
- Seals and bearings
- Navigation and automation systems
- Entertainment systems
- Communication and control systems
- Power distribution and management systems
- Electrical design for complex vessels
- Energy management systems and hybrid solutions
- Environmental solutions, including for example, exhaust gas cleaning and ballast water management systems
- Pumps and valves
- Gas systems, including LNG, LPG and biogas handling, inert gas systems, compressors, liquefaction, regasification, and equipment for small-to-medium scale onshore gas installations
- Ship design.

The ability to combine the products offered into larger systems and solutions supports Wärtsilä's strategy of being the main solutions provider to its customers. This strategy provides added value to both shipyards and ship owners. Shipyard customers can focus on their areas of expertise and benefit from a reduced risk of product interface problems, while ship owners can rely on operational and maintenance benefits.

Segment	Vessel type	Main offering
Merchant	Gas carriers	4-stroke dual-fuel engines, auxiliary engines, controllable pitch propellers (CPP), gearboxes, tunnel thrusters, environmental solutions
	Tankers, containers, bulkers	Auxiliary engines, fixed pitch propellers (FPP), tunnel thrusters, 4-stroke engines for smaller vessels, navigation and automation systems, electric power distribution, environmental solutions
	Other: cargo, RoRo, car carriers	All of the above
Offshore	Floating exploration: drillships, semi-submersibles, etc.	4-stroke engines, steerable thrusters, tunnel thrusters, vessel automation systems, electric power distribution, gearboxes, environmental solutions
	Floating production units: FPSO's, FSO's, floating LNG, etc.	4-stroke engines, steerable thrusters, tunnel thrusters, CPP, vessel automation systems, electric power distribution, gearboxes, environmental solutions
	Service/Supply vessels: OSV's, PSV's, AHTS, AHS	4-stroke engines, steerable thrusters, tunnel thrusters, CPP, electrical propulsion systems, ship design, automation systems, gearboxes, environmental solutions
	Other: crane vessels, pipe layers, accommodation vessels	All of the above
Cruise and Ferry	Cruise vessels	4-stroke engines, FPP, tunnel thrusters, navigation, entertainment and automation systems, electric propulsion and power distribution, environmental solutions
	Ferries	4-stroke engines, CPP, FPP, steerable thrusters, tunnel thrusters, navigation, entertainment and automation systems, electric propulsion and power distribution, environmental solutions
	Other: Ro-Pax, yachts	All of the above
Special vessels	Tugs	4-stroke engines, FPP, steerable thrusters, tunnel thrusters, vessel automation systems, ship design, environmental solutions
	Dredgers	4-stroke engines, CPP, FPP, steerable thrusters, tunnel thrusters, vessel automation systems, environmental solutions
	Other: fishing vessels, ice breakers, research vessels, work boats, inland waterway vessels	All of the above
Navy	Frigates, corvettes, patrol vessels, aircraft	Waterjets, seals and bearings, tunnel thrusters, 4-stroke engines, navigation and automation systems, electric

carriers, destroyers,
submarines, support
vessels

propulsion and power distribution, underwater communication,
sonar systems, environmental solutions

Growth through gas, environmental solutions, and vessel efficiency

Wärtsilä Marine Solutions is uniquely positioned for growth driven by the increasing availability and use of gas as a marine fuel, the introduction of new environmental regulations, and the increased demand for more efficient vessels.

Stricter environmental regulations are driving the interest in gas as a marine fuel, as well as in emissions abatement technologies, such as exhaust gas cleaning and ballast water treatment systems. Marine Solutions offers its customers alternative solutions for meeting these requirements in a way that best meets the needs of their businesses and operating models, both as part of new build projects and as retrofits to vessels already in operation.

Wärtsilä was the first company to introduce dual-fuel engines to the shipping sector, thereby facilitating the use of liquefied natural gas (LNG) as a marine fuel. Since LNG contains no sulphur, there is an increasing trend towards the use of LNG fuel as a viable means of complying with the sulphur cap requirements. Wärtsilä also has a strong position in exhaust gas cleaning systems, with the most extensive reference list on the market. Today, the portfolio of SOx scrubber systems is the broadest in the industry and consists of closed loop systems for fresh water use, open loop systems for seawater use, and a combination of the two, i.e. the hybrid system. Wärtsilä's scrubber systems are approved by the IMO and by the Singapore flag state authorities. For NOx reduction and IMO Tier III compliance, Wärtsilä provides its customers with products based on selective catalytic reduction (SCR) technology. For ballast water treatment, customers can select systems utilising the two most common technologies: ultraviolet treatment and electro-chlorination. Both BWMS systems are IMO Type Approved, are available for both safe and hazardous area installation, and are expected to receive full USCG Type Approval in 2018.

Efficiency has become one of the top concerns for ship owners and operators. Wärtsilä's in-depth expertise and system skills help to optimise the efficiency of vessels, and make it possible for customers to achieve the performance, cost, and environmental compliance parameters that specifically match their operating profile.

Marine Solutions' operating environment

Wärtsilä Marine Solutions serves the marine and oil & gas industries. The main vessel segments covered in the marine industry are traditional merchant vessels, gas carriers, cruise & ferry, navy, and special vessels. In the oil & gas industry, Wärtsilä is active in serving offshore installations and related industry vessels, as well as land-based gas installations.

General shipbuilding and shipping market drivers

The global demand for new vessels in the shipbuilding and shipping industries is mainly driven by developments within the global economy and the resulting impact on trade and transportation capacity requirements. The global economy also influences fuel prices, which in turn have both a direct and an indirect impact on the marine and oil & gas industries. Price, availability, and demand are the driving factors in the oil & gas industry, while in the general shipping industry, fuel costs increase the demand for more efficient vessels. Other factors, such as shipyard capacity, newbuild prices, decommissioning and scrapping, as well as interest and freight rates, also affect these industries. Another important driver is the increasing level of environmental regulations and their impact on the demand for optimised vessel efficiency, environmental solutions, and gas as a marine fuel.

Main drivers for Wärtsilä's Marine Solutions business

- Developments in the global economy
- Development of world trade and needed transportation capacity
- Global energy demand growth
- Development of oil and gas prices
- Development of oil & gas fields and infrastructures
- Environmental regulations
- Technological developments and innovations

Competitors and market position

Wärtsilä Marine Solutions has continuously broadened its portfolio, which today ranges from engines and propulsion equipment to electrical equipment, navigation & automation, ship design, environmental solutions, gas systems, and pumps and valves. This is backed by the capability to build environmentally sound solutions, and by superior service support throughout the lifecycle of the product. Wärtsilä's competitive advantage lies in having the industry's broadest marine focused offering comprised of leading, innovative products, integrated systems, and engineering, which is supported by a unique sales and service network in touch with customers globally.

The field of competitors is extensive. It includes engine companies, such as MAN D&T, Caterpillar and HiMSEN, propeller makers such as Schottel and Thrustmaster, and environmental and auxiliary equipment providers like Alfa Laval. It also includes electrical and automation houses, notably Siemens, GE, ABB, and Kongsberg, pump and gas system providers, such as TGE Marine and Framo, and companies with broad offerings such as Rolls-Royce. Wärtsilä is recognised as a proven supplier of innovative and sustainable technologies across its portfolio serving the marine and oil & gas markets.

Marine Solutions and sustainability

The marine and oil & gas industries are at the centre of converging megatrends, namely a move towards a more diverse and cleaner energy mix, decarbonisation, increased transparency and accountability with regards to environmental performance, and a need to improve economic performance despite uncertainties in the global economy. For Wärtsilä it is clear that improved sustainability is central to addressing all these trends.

Wärtsilä is committed to becoming the most valued business partner to its customers. Thus, it is essential for Marine Solutions to have sustainability at the very core of its product and solutions development. The company's R&D and business development activities are based on a deep understanding of how these megatrends affect customers. The expansion and development of Wärtsilä's offering to the marine and oil & gas industries over the years demonstrates the response made to the needs of its customers. Gas, environmental compliance, and efficiency are the three pillars on which Marine Solutions builds its offering.

The shift towards natural gas

The global energy landscape is shifting towards a more diverse and sustainable energy mix, and natural gas – the cleanest fossil fuel – has a key role to play in this transition. During recent years, along with the increase in supply of natural gas, the oil & gas industry has seen a dramatic rise in demand. The marine industry is also affected by this transition, with interest in the use of gas as a marine fuel rising sharply.

Wärtsilä develops products and services that enable the safe use, handling, and distribution of natural gas for the marine and oil & gas industries. Wärtsilä is the marine industry's undisputed leader when it comes to gas-fuelled propulsion, with dual-fuel medium-speed engines ordered for more than 300 vessels, and more than 19,000,000 running hours having been accumulated in both land-based and marine applications. These milestones represent achievements that cannot be matched today by any other engine manufacturer. Thanks to a strong and safe track record in the use of gas as a marine fuel for LNG carriers, the industry is increasingly keen on expanding the use of LNG to other vessel types.

The benefits of using Wärtsilä's proven low-pressure dual-fuel technology are many:

- Emission reductions (when operating in gas mode): 85% less NO_x, 99% less SO_x, up to 99% reduction in particulates, 20-30% less CO₂ emissions, and no smoke
- Fuel flexibility to enhance operational security and competitiveness, with the use of heavy fuel oil, marine diesel oil, bio fuels, and crude oil possible
- Capital expenditure reductions of 15-20%, since the use of low pressure technology means simpler (lower cost) gas handling systems, and no need for further exhaust gas cleaning systems
- Reduced waste streams (liquid waste)
- No need to use secondary emission reduction systems (and hence no consumption of reagents)
- Redundancy and safety
- Stable operation on gas fuel across the entire load range, with no need to switch to diesel fuel at low loads
- Lower consumption of pilot fuel (just 1% of the total fuel used).

Enabling the use of gas as a marine fuel means much more than merely applying a proven technology to gas engines. For Wärtsilä, it also means maintaining its leading position in the design of gas-fuelled vessels, and offering reliable and competitive gas storage and handling systems. Wärtsilä also supports the development of the broader gas value chain in the oil & gas industry with, for instance, its liquefaction and regasification solutions.

Environmental compliance

The marine industry is undergoing the implementation of changes needed in order to comply with existing environmental regulations, while at the same time evaluating the possibilities for complying with upcoming regulations. Emissions to air (CO₂, NO_x, SO_x, particulate matter, volatile organic compounds (VOC), and others) and water are under scrutiny. Similarly, regulations relating to safe and clean operations are becoming stricter, especially for the oil & gas industry.

Wärtsilä offers a broad set of options for compliance with environmental regulations. All include working technologies, fast installation, and support throughout the company's global network. Wärtsilä is committed to providing its customers and society at large with reliable and safe technologies for environmental compliance, which will be available for use as new regulations come into force. The company can also assist customers in evaluating the best options for compliance so as to adopt a solution that meets their specific operational needs.

In the marine industry, Wärtsilä's offering for environmental compliance covers the following:

- For SO_x and NO_x compliance: gas propulsion, conversions to gas propulsion, NO_x reducers, SO_x scrubber systems, and retrofit services
- For ballast water compliance: products based on ultraviolet treatment and electro-chlorination technologies, and retrofit services
- For Energy Efficient Design Index (EEDI) compliance: improved efficiency of individual products and ship design
- For emissions to water compliance: waste water, bilge water, scrubber water, and sealing systems.

In addition to these, Wärtsilä's offering to the oil & gas industry includes the following solutions to facilitate safe and clean operations:

- VOC recovery
- Flare gas recovery
- Inert gas and nitrogen systems
- Oil separation
- Waste water systems
- Oily and slop water cleaning
- Fresh water generation
- High pressure compressors.

Focus on efficiency

The global economic downturn has put enormous pressure on the cost structure of the marine industry in particular, while the oil & gas industry is also deeply affected by low oil prices. In the marine industry especially, the cost of fuel is a key driver for upgrading equipment, rethinking operational profiles, and for new vessel designs. Investments in improved energy efficiency have both economic and improved environmental performance benefits.

Wärtsilä strives to optimise the lifecycle cost of installations. This is done because it makes economic sense to customers, and because of the company's in-house understanding of the pressure for reducing operating costs. Hence, Wärtsilä is committed to investing in developing products and solutions that will help achieve significant savings for its customers. Furthermore, improved efficiency results in better environmental performance.

In 2017 Wärtsilä launched the Wärtsilä HY, a fully integrated hybrid power module combining different power sources, an energy storage system, and power electronics optimised to work together through a newly developed energy management system. It is the marine sector's first hybrid power module of this type produced, thereby establishing a new industry benchmark in marine hybrid propulsion and providing a lower environmental impact than conventional machinery solutions.

Manufacturing

Wärtsilä's manufacturing is focused mainly on the assembly, testing, and finishing of products and key strategic components. The company's business model, which is strongly connected to a broad network of suppliers, guarantees flexibility in capacity. Being close to the customer is important, as is the focus on quality and the continuous emphasis placed on technology leadership in the company's R&D activities. Wärtsilä provides products and systems that are reliable, cost efficient, environmentally compatible, and technologically advanced. They are capable of being integrated into overall solutions or delivered as standalone equipment.

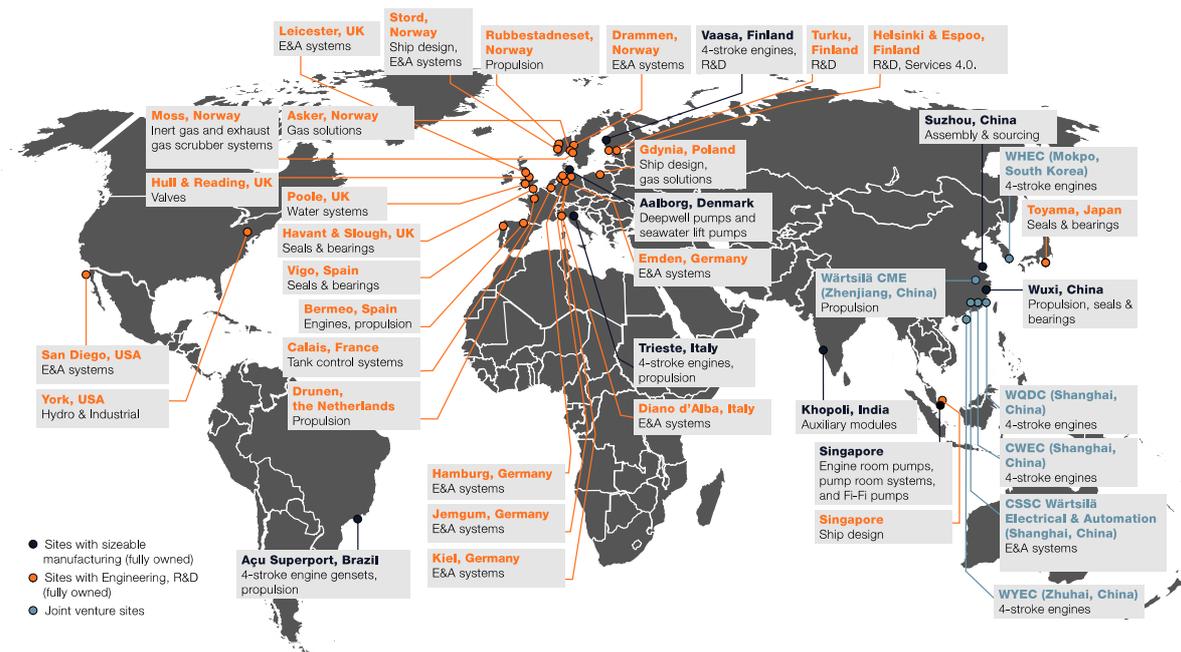
Manufacturing footprint

Wärtsilä's manufacturing footprint is global and continuously optimised for competence, availability, customer presence, and efficiency. Being close to customers enables Wärtsilä to provide better service to customers locally, and allows savings to be achieved in both production and transportation costs.

Wärtsilä's global supplier network supports flexibility in manufacturing

Through close co-operation, excellent relations, and the sharing of information with suppliers, the supply of components and market-conform lead times are secured. Wärtsilä has numerous suppliers globally. The sourcing strategy is to focus on carefully selected suppliers, with a strong emphasis on performance, innovation, and a presence close to Wärtsilä's manufacturing units and joint ventures. The aim is to continuously develop and strengthen the company's global supply chain with a strong emphasis on quality and cost competitiveness.

Wärtsilä's sites with more than 50 FTEs



Research and development

Wärtsilä is strongly committed to research and development. The aim of its R&D activities is to continuously strengthen the company's technology leadership position, and to further improve its competitive edge in the global marine and energy markets. This is achieved by developing products and services that are based on reliable, efficient, and cost-competitive technologies, and which address customer needs.

The focus of Wärtsilä's R&D activities is on digitalisation, smart technologies, new products, and solutions that are flexible, efficient, reliable, safe, cost-efficient to operate, and that have a minimal environmental footprint throughout their lifecycles. A substantial proportion of the company's investments in product development is targeted at securing environmental compliancy, providing short- and long-term benefits for the company's customers, and enabling sustainable societies.

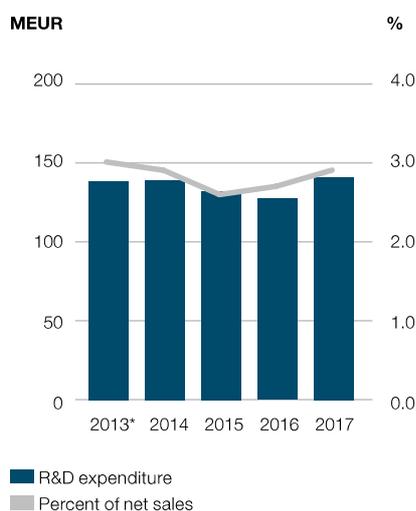
By focusing on the initial stages of the development process, and by utilising modularity, simulation, virtual testing, and validation, Wärtsilä is able to reduce the lead time for new solutions thereby securing reliability and safety aspects without compromising quality.

Validation testing on site with existing installations, in co-operation with the customers, is an important element in furthering the improved performance of existing solutions. It also assists in finding new and better solutions while, at the same time, gaining long-term experience under real field conditions. A field installation also provides an opportunity to gain valuable learning and insight regarding new technologies and solutions.

When the product has successfully passed all the validation process steps, both in the laboratory and in the field, and its performance meets Wärtsilä's high standards, it can be delivered to the market.

Wärtsilä protects innovation and competitiveness through close attention to Intellectual Asset Management and the continuous development of internal key competences. Networks and clusters are formed to further extend the company's know-how, skills, and capabilities by committing to long-term relationships with suppliers, engineering companies, university partners, and with licensees and other Original Equipment Manufacturers.

Research and development expenditure



* Restated, figures include continuing operations.

Minimising environmental footprint through R&D

Improvements in efficiency	Reducing emissions to air	Reducing emissions to water
<p>Total ship efficiency: An efficient and low emission system for the entire vessel is achieved by combining optimised ship design with Wärtsilä's knowledge of automation, machinery, propulsion, and control systems. Wärtsilä has developed numerous efficiency concepts, such as Low Loss Concept (LLC) and Low Loss Hybrid (LLH). Wärtsilä's digital solutions enable its customers to maximize efficiency through insights for operations optimization and asset management, and to cut emissions.</p> <p>Engine efficiency improvements: A long-term focus on improving engine efficiency has resulted in Wärtsilä engines having the highest efficiency ratings among existing prime movers. A key success factor has been the development of integrated engine functionalities that enable low emissions and high engine efficiency. The new Wärtsilä 31 has the best 4-stroke engine fuel economy in the world.</p> <p>Propeller efficiency upgrades: Propulsion products incorporate environmental features and are critical for the overall environmental impact of the vessel. The new generation propulsion units and energy saving solutions such as EnergoFlow result in significant fuel efficiency improvements (5-12%) that also result in fewer emissions.</p>	<p>Greenhouse gases (GHG): Wärtsilä focuses on the development of technologies that reduce GHG emissions in numerous ways.</p> <p>SO_x emissions: Wärtsilä provides several solutions to help customers reduce emissions of SO_x and comply with local and global regulations. Wärtsilä's technology development supports solutions that enable the use of fuels with different sulphur contents, as well as systems that clean sulphur from the exhaust gas, and enable the use of alternative fuels with close to zero sulphur content, e.g. natural gas. Exhaust Gas Cleaning Systems reduce the SO_x emissions, as well as remove Particulate Matter and Black Carbon. These systems can be tuned for both the 0.1% limit in Emission Control Areas and the global 0.5% cap agreed within IMO.</p> <p>NO_x emissions: All Wärtsilä engine portfolio products are IMO NO_x Tier II compliant. Wärtsilä solutions for IMO NO_x Tier III are:</p> <ul style="list-style-type: none"> • Selective Catalytic Reduction (SCR) • Gas engine (dual-fuel in gas mode) 	<p>Ballast water managements systems: Wärtsilä's Aquarius range of IMO approved Ballast Water Management Systems (BWMS) offer solutions to limit the spread of ballast water-related invasive species and prevent their introduction to aquatic ecosystems. The Aquarius BWMS range also has USCG AMS status.</p> <p>Waste water cleaning: Wärtsilä solutions facilitate the management and treatment of both grey and black wastewater, in accordance with the most stringent legislation applicable, including the removal of Phosphates and Nitrates, as for example required for Alaska.</p> <p>Oily water separators: The Wärtsilä Oily Water Separator (OWS) processes bilge water with a separating process, removing oil traces to a level greatly exceeding the minimum standards required by the IMO.</p>

The HERCULES programme and sustainable innovation through partnerships

The long-term HERCULES R&D programme was conceived in 2002, and has been set up within the context of the EU's sixth and seventh Framework programmes. Sharing a joint vision, the major low- and medium-speed engine manufacturers, Wärtsilä, Winterthur Gas & Diesel, and MAN Diesel & Turbo, are collaborating with universities, research institutions, and other industrial partners to develop new technologies for marine engines and related systems. The fourth phase kicked off in 2015 in the form of the HERCULES-2 project that aims at creating fuel flexible large marine engines that are optimally adaptive to their operating environment.

The project HERCULES-2 comprises four R&D Work Package Groups:

- I: Fuel Flexible Engine
- II: New Materials (Applications in engines)
- III: Adaptive Powerplant for Lifetime Performance
- IV: Near-Zero Emissions Engine

The HERCULES-2 consortium comprises 32 partners of which 30% are Industrial and 70% are Universities or Research Institutes. HERCULES-2 is planned to run for three years, from 2015 to 2018, with a total budget of EUR 25 million. The project was made possible by a EUR 20 million funding through the European Commission Horizon 2020 Innovation Programme and a contribution from the Swiss government.

In November 2017, Wärtsilä entered into a unique co-operation program with four leading Finnish universities on developing world-class research into sustainable future applications for internal combustion engines. The academic institutions participating in this Engine Research Initiative (ERI) programme are Aalto University, Tampere University of Technology, Åbo Akademi University, and the University of Vaasa. The ERI aims at creating an open research ecosystem wherein cutting-edge technologies involving internal combustion engines can be developed together with other partners, and matured to meet the evolving future needs of the shipping and power production sectors.

Innovating for sustainability

Wärtsilä's purpose is to enable sustainable societies with smart technologies. As a global leader in complete lifecycle solutions for the marine and energy markets, Wärtsilä plays a key role in providing environmentally sound solutions and services that enable its customers to develop their businesses in a sustainable way. This approach is the basis of the company's sustainability work and is supported by its strong commitment to responsible business conduct.

The growth in the world's energy needs, combined with increasingly stringent environmental requirements and the scarcity of natural resources, create a challenging operating climate for the marine and power sectors. To secure its leading position at the forefront of sustainable innovation, Wärtsilä continuously invests in technology development. Wärtsilä focuses on improving the energy efficiency of its products, while simultaneously striving to reduce their emissions. As part of its sustainable innovation approach, Wärtsilä seeks to create solutions that benefit the entire power system and marine ecosystem.

Innovation and product development, and the willingness to explore new technologies are essential for meeting current customer needs, as well as for being prepared for future requirements, and remaining an industrial frontrunner. Wärtsilä develops environmentally sound products and solutions across a broad front, including technologies related to efficiency improvement, the reduction of gaseous and liquid emissions, waste reduction, noise abatement, as well as effluent and ballast water treatment. The company's proactive approach to meeting future demand has resulted in the development of both primary and secondary abatement technologies, and has broadened the range of usable fuels. Wärtsilä actively seeks to utilise opportunities provided by the digital transformation taking place in the maritime and energy sectors. Wärtsilä's commitment to investing in research and product development benefits both its customers as well as the environment, both in the short-term and over a longer time span.

The key features of Wärtsilä's environmentally sound solutions include:

- Reliability, safety, and long life span
- Low emission levels
- The ability to utilise renewable energy, including storage systems
- Fuel flexibility
- Efficiency improvement with lower lifecycle costs
- Low water consumption
- Design and operational optimisation of vessels

By combining these key features, and understanding the system level benefits of its offering, Wärtsilä is able to provide solutions that enable the development of sustainable shipping and power systems.

Sustainable Innovations in 2017

Smart Energy Systems

- New hybrid power plants, engines+storage, and energy storage solutions introduced to power markets globally. These new and innovative solutions deliver added value to customers by utilising energy storage technology together with traditional engine based power generation.
- Greensmith, a Wärtsilä Company, and AEP launched a hybrid hydro energy storage project in the USA. The integration of advanced energy storage and software with hydro-electric generation is seen to be the world's first hybridized system of its kind to provide ancillary services.
- A Letter of Award received for a 95,3MWp (75MWac) solar photovoltaic (PV) power plant in Nigeria. The solar power plant will deliver electricity to a million homes in Nigeria and will be Wärtsilä's first utility-scale solar PV project exclusively for an on-grid application.
- The introduction of Wärtsilä 31SG, a gas fuelled version of the successful Wärtsilä 31 engine. The defining feature of the Wärtsilä 31SG is its ability to achieve simple-cycle efficiency levels in excess of 50% (compared to around 40% with modern gas turbines), which represents a milestone achievement in the energy sector.

Smart Marine Ecosystems

- The introduction of the Wärtsilä HY, a fully integrated hybrid power module combining engines, an energy storage system, and power electronics optimised to work together through a newly developed energy management system. It is the marine sector's first hybrid power module of this type produced, thereby establishing a new industry benchmark in marine hybrid propulsion.
- The launch of the Eniram SkyLight 2.0 monitoring and predictive analysis system update. The Eniram SkyLight 2.0 adds nautical maps, weather layers, and route importation to make predictive analysis and proactive planning more available. The updated system can visualise a vessel's route from economic, environmental, and safety perspectives.
- Wärtsilä EnergoFlow, an innovative pre-swirl stator to improve fuel efficiency, was launched. With increased propulsive efficiency and subsequent energy savings, the Wärtsilä EnergoFlow reduces the level of emissions from ships.
- The launch of SmartPredict, a system designed to provide safer and more efficient vessel operations by reducing the risks associated with manoeuvring.
- The successful testing of an automatic wireless induction charging system on a hybrid powered coastal ferry. This was the first commercial ferry in the world operating with high power wireless charging capability for its batteries, and the successful project represents a notable breakthrough in the evolution of plug-in electrically operated vessels.
- Wärtsilä took an important step towards developing its Smart Marine capabilities by successfully testing the remote control of a ship's operations. In the future Smart Marine ecosystem, connecting 'smart' vessels with 'smart' ports will enable an even more efficient use of resources, and will reduce the impact on the climate while also enhancing safety.

Why invest in Wärtsilä

Wärtsilä's strengths lie in its integrated services and solutions offering, data-driven innovations, close and long-standing customer relationships, and an unparalleled global presence.

Supporting customers with lifecycle solutions

Wärtsilä's business model is based on providing the marine and energy markets with smart technologies and optimised lifecycle services. The Services business, which represents nearly 50% of Wärtsilä's net sales, provides a good foundation for achieving the company's long-term target of profitable growth.

The demand for Wärtsilä's services is supported by the increasing technological sophistication of the installed equipment base. Digitalisation provides further opportunities to develop a value-adding customer offering. It also enables the leveraging of new technologies to build capabilities that will create a future offering with equipment-as-a-service.

A leader in smart technology for the marine and energy markets

The shift towards clean and flexible energy production, and the need for efficient and safe transportation, form the basis of Wärtsilä's offering of smart solutions. As an industry frontrunner, Wärtsilä is well positioned to respond to the need for innovative and energy efficient solutions. Wärtsilä's digital transformation will provide increased customer value through a new era of collaboration and knowledge sharing. Continuous investing in research and development is vital for ensuring the competitiveness of the company's product portfolio, and for securing a leading position in sustainable innovation.

A capital-light business model emphasising increased efficiency

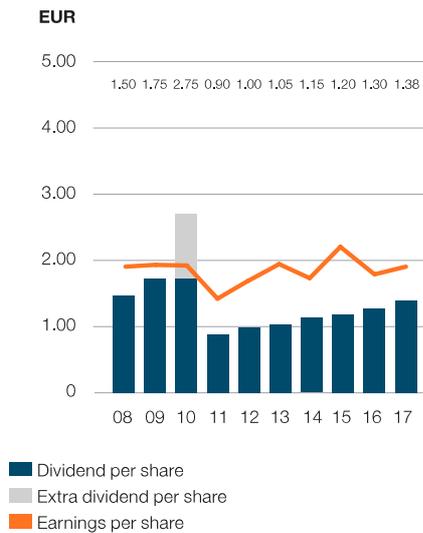
Wärtsilä's manufacturing model is assembly-based, with shared production and R&D facilities. This creates flexibility in aligning operations to market conditions, and synergies in innovation processes.

Achieving operational excellence by focusing on continuous process improvement throughout the organisation is a central pillar for reaching Wärtsilä's financial targets. So too is the driving of benefits related to a business line-based organisation with decentralised accountability.

Investing in technological leadership and providing shareholder returns

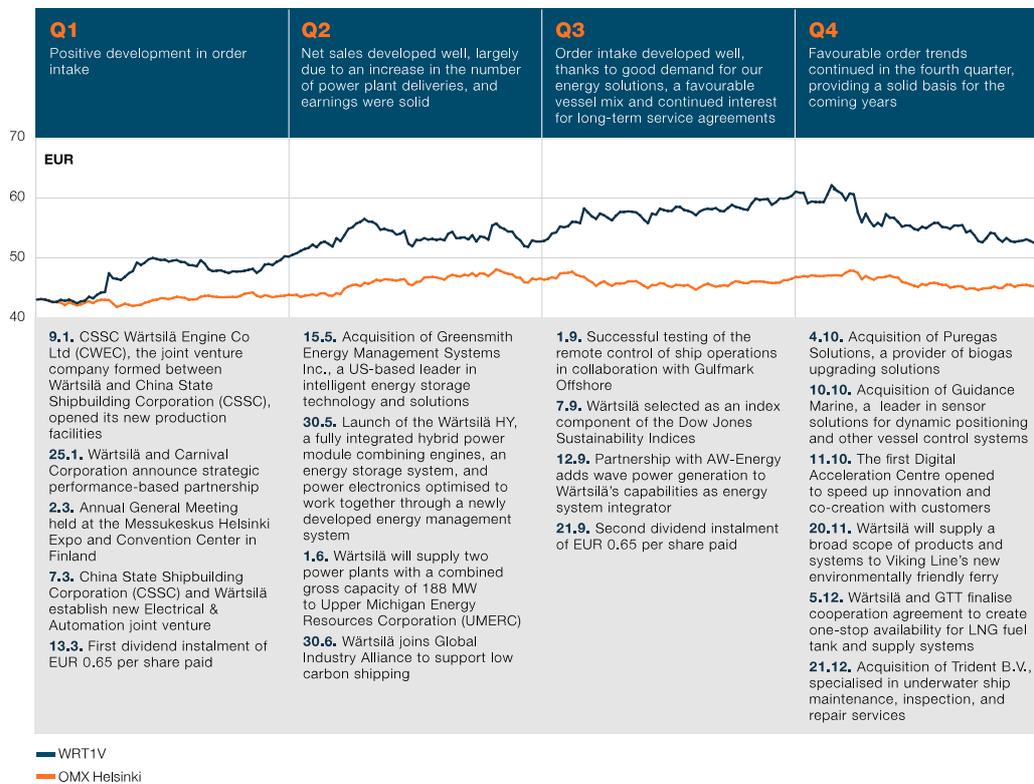
Wärtsilä's financial position enables the securing of future positioning by allowing investments in research and development activities, and by developing the business through acquisitions. It also enables solid dividends to be offered to the company's shareholders.

Dividend



The free share issue approved by Wärtsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wärtsilä shares to 197,241,130. Earnings per share in comparison periods 2008–2010 have been adjusted to reflect the increased number of shares.

Wärtsilä's share price development in 2017



Wärtsilä is included in the following sustainability indices:



FTSE4Good

FTSE4Good Index



MSCI Global Sustainability Index Series



Ethibel Sustainability Index (ESI) Excellence Europe



OMX GES Sustainability Nordic Index & OMX GES Sustainability Finland Index



ECPI Global Carbon Equity Index & ECPI Global ESG Best in Class Equity index



RobecoSAM Sustainability Yearbook



Euronext Vigeo index: Eurozone 120



STOXX Global ESG Leaders index



Member of Dow Jones Sustainability Indices

Sustainability

Sustainability at Wärtsilä	44	Economic	64
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Sustainability at Wärtsilä

Our commitment to sustainability and responsible business is based on our purpose and strategy, which along with our sustainable development objectives create the framework for developing the company's activities and products. Wärtsilä's strategy is based on three key areas, energy efficient solutions, lifecycle optimisation, and innovative solutions, all of which contribute to a more sustainable future in both the energy and the marine industry.

Our strength is our technological leadership and therefore technology plays a central role in our sustainability work. Wärtsilä Energy Solutions and Marine Solutions businesses focus on developing and providing sustainable solutions for the industries in which they operate, whereas Wärtsilä Services has a key role in supporting our solutions and providing the latest technologies for existing installations through upgrades and modernisation packages. The utilization of lifecycle data analytics will enhance our efforts on enabling sustainable societies with smart technology.

Wärtsilä identifies and assesses its sustainability risks on an annual basis. Based on the current assessment, the sustainability risks are considered to be at a moderate level. Generally speaking sustainability can be seen as an opportunity for Wärtsilä.

Wärtsilä's sustainability approach



Wärtsilä's sustainable development is based on three closely interrelated pillars: economic, environmental, and social performance. In the field of sustainable development, Wärtsilä's overriding focus is on the following:

- Economic: profitability
- Environment: environmentally sound products and services
- Social: responsible business conduct

For the sustainability reporting purposes Wärtsilä has identified the following topics as material: Emissions, environmental compliance, economic performance, training and education, and occupational health and safety.

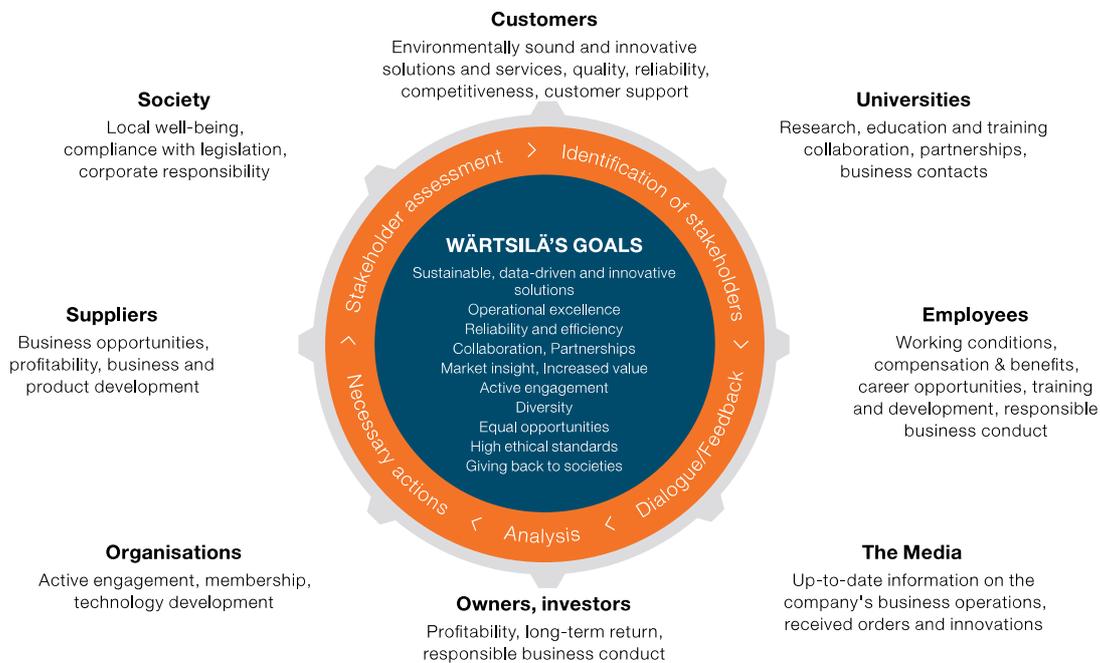
The overall management approach of sustainability is presented in the picture Wärtsilä's sustainability approach. Wärtsilä's

strategy for environmental and social responsibility is presented in the Strategy section. Wärtsilä sets corporate level sustainability targets for the core areas.

Stakeholder relations

Wärtsilä actively handles its relations with stakeholders by engaging with them in an open and constructive dialogue. Wärtsilä considers this approach as an essential element when developing its operations, products, and services. At the corporate level, Wärtsilä has defined its most important stakeholders as being its customers, owners, suppliers, employees, and society in general. Wärtsilä’s subsidiaries define their own primary stakeholders, which in addition to the ones mentioned above, include local residents close to production plants, educational institutes, and public authorities. Wärtsilä’s Code of Conduct provides the foundation for the management of stakeholder relations, while the priorities involved vary within Wärtsilä from one subsidiary to another.

Main expectations of Wärtsilä's stakeholders and Wärtsilä's goals



In order to facilitate active dialogue with its customers, Wärtsilä arranges Customer Days for existing and potential customers at locations in various parts of the world. During these events, subjects of topical interest from both local and global perspectives are reviewed, and existing and future needs and challenges are discussed.

In addition to these Customer Days, the Marine Solutions and Energy Solutions businesses arranged or participated in over 300 industry-related events globally during 2017, including international and national seminars, exhibitions, and conferences. These events were attended by customers, potential customers, and other stakeholders, such as investors, consultants, suppliers, students, and other interested parties.

Long-term research programmes are an important means of enhancing open dialogue and co-operation with key industry players and important research institutions. Wärtsilä has actively initiated and participated in the development and work of common research programmes, both locally and internationally.

Dialogue with employees takes place in many formats. More information about the procedures and processes to support active and engaging dialogue with Wäartsilä employees is described in the section covering Consultation and information procedures in Group companies.

Wäartsilä also engages in an active and open dialogue with local and international public authorities and officials. The aim is to share information, provide expertise and support authorities in improving the quality of regulatory matters. Wäartsilä participates in public consultations in areas that are of importance to the company.

Channels of dialogue

Stakeholder	Channel of dialogue	Assessments (Frequency)
Customers	Regular contact with customers, lifecycle support for products, customer events and seminars, Customer Days, customer magazines, corporate websites and newsletters, social media, conferences and exhibitions, product documentation, customer feedback system	System for measuring customer satisfaction and quality (Continual)
Employees	Open and continuous communication between management and employees, annual development discussions, town hall meetings, intranet, employee magazines, newsletters, training events, national statutory employee bodies and the European Works Council, occupational health and safety committees, suggestion system, whistle blower, Continuous Improvement Process (CIP), Technology and Innovation Award, Customer Care Award	Employee satisfaction surveys - MyVoice (Biennial)
Owners, investors	Management meetings with investors, financiers, and analysts, stakeholder magazines, Annual General Meetings, information meetings, stock exchange and press releases, annual and interim reports, capital markets days, corporate websites, investor relations surveys, sustainability surveys	Investor relations surveys, sustainability surveys and indices (Annual)
Suppliers	Regular contact and meetings with suppliers, Supplier portal, supplier development activities, supplier days	Supplier assessments (Continual)
Society	Reporting to, and co-operation with, public officials on issues such as the environment and occupational health and safety, meetings with	Stakeholder feedback (Continual), corporate image surveys (Annual)

	decision makers, position papers and consultations, Open Door days, sustainability reports, corporate presentations, local communications, corporate websites, social media, sponsorships	
Organisations	Memberships, participation in local trade and industrial organisation activities, active role in working groups, contacts with various public bodies	
Universities	R&D projects, placements and internships, thesis collaboration, participation in career fairs and seminars, sponsorship of student activities, lectures	Preferred employer surveys (Annual)
Media	Stock exchange, corporate and trade press releases, management and expert interviews, annual and interim reports, stakeholder magazines, briefings, site, factory and reference visits	Surveys conducted among business journalists, media surveys (Annual)

Voluntary commitments

Wärtsilä signed the United Nations Global Compact initiative in 2009 and supports its ten principles with respect to human rights, labour, the environment, and anti-corruption. Wärtsilä is committed to aligning its strategy, culture, and day-to-day operations with the principles, and to engage in collaborative projects that advance sustainable development. Wärtsilä's Code of Conduct and sustainability programmes are the practical tools used for promoting the principles within its sphere of influence.

In 2011, Wärtsilä joined the Sustainable Shipping Initiative (SSI) and signed its Vision for a Sustainable Shipping Industry in 2040. The initiative brings together some of the biggest companies in the maritime sector.

Wärtsilä also participates in the Sustainable Marine Biofuel Initiative, the purpose of which is to accelerate the development of reliable combustion engines capable of running on sustainable, scalable, and affordable marine bio-fuels.

Wärtsilä has signed the Finnish Business and Society's (FIBS) Diversity Charter, and has also signed an agreement in 2016, whereby Finnish industry voluntarily endeavours to use energy more efficiently. Wärtsilä North America Inc. signed the Customs Trade Partnership Against Terrorism (C-TPAT) agreement in 2003.

Activities in organisations

In 2017, Wärtsilä participated in activities organised by various national and international organisations and associations. The key organisations for Wärtsilä and the nature of Wärtsilä's involvement in the organisations are presented in the table below.

Stakeholder	Organisation	Nature of activity
Interest groups	Confederation of Finnish Industries (EK), Federation of Finnish Technology Industries, Finland Chamber of Commerce, International Chamber of Commerce (ICC), ICC Finland	Membership and participation in activities.
Industrial organisations	Association of Singapore Marine Industries (ASMI), Brazilian Institute of Oil and Gas (IBP), Brazilian Thermolectric Generators Association (ABRAGET), Cogen Europe, Confederation of Indian Industry (CII), Cruise Line International Association (CLIA), BIMCO, EnergyVaasa, Engine Manufacturers Association (EMA), European Association of Engine Manufacturers (Euromot), European Engine Power Plants Association (EUGINE), Exhaust Gas Cleaning System Association (EGCSA), Hong Kong Shipowners Association, Indian Diesel Engine Manufacturers Association (IDEMA), Interferry, International Council on Combustion Engines (CIMAC), Society for Gas as a Marine Fuel (SGMF), Union of the Electricity Industry (EURELECTRIC), Verband Deutscher Maschinen- und Anlagenbau (VDMA), WaterBorne TP, SolarPower Europe	Board membership and participation in activities of specific working groups (CII, CIMAC, Cogen Europe, EMA, Euromot, EUGINE, VDMA, WaterBorne TP). Membership and participation in activities (ABRAGET, ASMI, BIMCO, CLIA, EGCSA, EURELECTRIC, EnergyVaasa, Hong Kong Shipowners Association, IBP, IDEMA, Interferry, SGMF, SolarPower Europe).
Standardisation organisations	European Committee for Standardisation (CEN), International Organisation for Standardisation (ISO)	Participation in activities.
International organisations	European Sustainable Shipping Forum (ESSF), International Maritime Organisation (IMO), Global Compact Nordic Network (GCNN), Global Industry Alliance (GIA)	Participation in activities through national delegations (IMO). Participation in activities (ESSF, GCNN, GIA).
Other	Cleantech Finland, Finnish Business & Society (FIBS), European Energy Forum (EEF), Global Reporting Initiative (GRI), Sustainable Shipping Initiative (SSI)	Participation in activities.

Sustainability management

Wärtsilä's sustainability is systematically managed through the Group-wide guiding principles and management systems and practices in place for material sustainability aspects and impacts. Wärtsilä's global guiding principles together with the company's values ensure a harmonised way of working towards sustainable development. Wärtsilä's Corporate Manual includes a description of the company's operating procedures, responsibilities, and the management system structure that are applicable for the entire company. Wärtsilä's governance and risk management principles are described in the [Governance section](#).

The key elements of Wärtsilä's sustainability management are described in the table below. The guiding principles lay the foundations for uniform management practices. The management approach covers procedures, processes, and systems to manage and monitor material aspects.

Guiding principles	Management area	Material aspect	Targets
<ul style="list-style-type: none"> • Code of Conduct • QEHS Policy • Employee practices • Corporate Manual • Other policies and guidelines 	<ul style="list-style-type: none"> • People management • Product design principles • Environmental management • Occupational health and safety management • Responsible business conduct • Supply chain management 	<ul style="list-style-type: none"> • Personnel skills and development • Environmental impacts of Wärtsilä's products and services • Occupational health and safety • Compliance with laws and regulations • Anti-corruption and -bribery • Economic impacts to stakeholders 	<ul style="list-style-type: none"> • Wärtsilä Corporate Sustainability targets • Locally defined targets

Guiding principles

Wärtsilä's Code of Conduct defines common rules for all employees, and provides guidance on Wärtsilä's approach to responsible business practices. The key areas of the Code of Conduct include: compliance with laws, transparency and continuous stakeholder dialogue, respect for human and labour rights, fair employment practices, anti-corruption, anti-fraud, and data privacy.

Wärtsilä takes an active approach to the application of the Code of Conduct, and promotes its implementation through the effective communication of its contents to its employees. Application of the Code is monitored internally. Wärtsilä has also implemented an externally hosted whistleblowing channel for all employees to report potential misconduct relating to the Code of Conduct or other Wärtsilä policies. Such reporting can be made anonymously and in 16 languages.

Suppliers and business partners are an important and integral part of the total value chain of the company's products and services. They are expected to conduct their businesses in compliance with the same high legal and ethical standards and business practices as Wärtsilä. Wärtsilä also promotes the application of the Code of Conduct by monitoring the actions of its suppliers and business partners, and has a stringent pre-qualification and monitoring programme for all sales intermediaries complemented with a tailored e-learning programme.

Group-wide policies complement the Code of Conduct and the commitment to maintain the highest legal and ethical standards in everything the company does. Wärtsilä's Quality, Environmental, Health and Safety Policy sets principles for managing the environmental impacts of Wärtsilä's products and services. Wärtsilä's corporate policy on equal opportunities and fair employment practices creates a common framework for employee practices in all group companies. It covers the following issues: equal opportunities, human and labour rights, well-being at work, non-harassment, and remuneration. Wärtsilä's Corporate Manual also includes other policies, such as anti-corruption, compliance reporting, and Wärtsilä's supply management policies. The purpose of the manual is to safeguard compliance with relevant legislation, and to provide further guidance concerning daily business conduct.

Values and Code of Conduct programme

Wärtsilä executes a Values and Code of Conduct programme, including various actions to strengthen the ethical culture of the company. The programme elements include Wärtsilä Values and Code of Conduct discussion modules, the signing of an individual Code of Conduct Undertaking, an e-learning programme, and inclusion of the Code of Conduct topic into the annual development discussions covering all employees. The purpose of the Values and Code of Conduct discussions is to create a common understanding and to strengthen the values and principles of the Wärtsilä Code of Conduct. Additionally, every employee is required to sign a personal undertaking letter indicating that they have read the Code of Conduct and that they commit to complying with its contents in their work.

Code of Conduct implementation



Code of Conduct

Introduction

Wärtsilä is committed to carrying out its business in a sustainable way. In order to promote the long-term interests of Wärtsilä and its stakeholders, the company strives to maintain the highest legal and ethical standards in all its business practices. Each employee is expected to act responsibly and with integrity and honesty, and to comply with this code and its underlying policies and instructions.

Compliance with laws

All business and other activities of Wärtsilä shall be carried out strictly in compliance with all applicable laws and under the principles of good corporate citizenship in each country where such activities take place.

Each employee is expected to comply with the requirements of those laws and regulations that apply to Wäartsilä's operations and to his/her job and with the Wäartsilä principles of good corporate citizenship.

Openness

Wäartsilä promotes openness and transparency as well as continuous dialogue with its stakeholders, including customers and other business partners, shareholders, personnel, authorities, local communities, and the media. Stock exchange rules and competitive considerations may, however, in some cases restrict such openness and transparency.

Wäartsilä strives to be honest and accurate when communicating with its stakeholders, and also Wäartsilä employees shall make their statements in accordance with this principle.

Respect for human and labour rights

Wäartsilä supports and respects the protection of human rights as defined in the United Nation's Universal Declaration on Human Rights. No employee is allowed to take any action that violates these human rights principles, either directly or indirectly.

Wäartsilä supports basic labour rights as defined by the International Labour Organization. In this respect, Wäartsilä upholds the freedom of association and the effective recognition of the right to collective bargaining. In the case that these rights are restricted by local law, Wäartsilä endeavours to offer its employees alternative means to present their views. Wäartsilä does not accept any form of forced or compulsory labour, or the use of child labour.

Fair employment practices

Wäartsilä promotes freedom from discrimination based on race, ethnic or national origin, colour, gender, family status, sexual orientation, creed, disability, age, political beliefs or other characteristics protected by law. Wäartsilä fosters equal opportunity and our employees are selected and treated on the basis of their abilities and merits.

Wäartsilä does not accept any form of discrimination, harassment or bullying from its employees.

Occupational health and safety

Wäartsilä endeavours to create hazard-free workplaces for its employees, contractors and others working in various locations by applying high standards of occupational health and safety. Wäartsilä strives to assure the safety of its products and solutions through its world-class product and solution development processes.

Each employee is responsible for complying with the safety instructions, for using personal protection equipment when required, and for reporting on any shortcomings regarding safety instructions or protection measures.

Conflicts of interest

Wäartsilä expects full loyalty from its employees. Employees must avoid situations where their personal interests may conflict with those of Wäartsilä. This means, for instance, that employees are not allowed to accept gifts or entertainment from a stakeholder, except a gift or entertainment of a minor value given on an occasional basis, providing it does not create a conflict of interest situation.

Anti-corruption

No Wäartsilä company or any of its employees may, directly or indirectly, promise, offer, pay, solicit or accept bribes or kickbacks of any kind, including money, benefits, services or anything of value. Such payments and favours may be considered bribery, which violates local legislation and internationally recognised principles for combatting corruption and bribery.

Environment

Wäartsilä's target is to develop and produce for its customers environmentally advanced solutions and services that fulfil essential requirements, such as low emissions and high efficiency. Efforts are made to achieve sustainable development by means of raw material selection, processes, products, wastes and emissions through the use of the latest technical advances. Each employee shall comply with the policies and instructions regarding environmental protection.

Relationship with authorities and local communities

Wärtsilä maintains constructive co-operation with authorities and regulatory bodies, at both local and international levels. Wärtsilä seeks to play a role in serving the needs of the local communities whenever possible.

Innovation and protection of proprietary information

Wärtsilä supports and encourages innovation by its employees in all areas of its activities.

Wärtsilä's intellectual property is one of its most valuable assets, and the patents, trademarks, copyrights, trade secrets, and other proprietary information of Wärtsilä must be protected. At the same time, each Wärtsilä employee must respect the intellectual property rights of others.

Accuracy of accounting records

Wärtsilä accounting records must be accurate and reliable in all material respects. Unrecorded funds are prohibited. The records must not contain any false, misleading, or artificial entries.

Competition and fair dealing

Competition laws aim to protect consumers and businesses against unfair business practices. Each employee shall comply with those laws. Actions such as participation in cartels, abuse of a dominant position in the market place, or the exchange of price or other commercial information between competitors are prohibited. Wärtsilä employees should be sensitive to competition concerns when attending occasions where competitors, or potential competitors, can be present.

Anti-fraud

Wärtsilä does not tolerate fraudulent behaviour or activities, such as embezzlement, fraud or theft. Such violations will lead to immediate termination of employment and are subject to criminal sanctions.

Implementation

Wärtsilä takes an active approach to the application of this Code and promotes its implementation through the effective communication of its contents to employees. Wärtsilä monitors the application of this Code internally.

Suppliers and business partners are an important and integral part of the total value chain of the products and services of Wärtsilä. They are expected to conduct their businesses in compliance with the same high legal and ethical standards and business practices as Wärtsilä. Wärtsilä promotes the application of this Code by monitoring the actions of its suppliers and business partners.

In the case that questions arise regarding the interpretation of, or compliance with, this Code, Wärtsilä Legal Affairs should be contacted.

The application of the Code will be reviewed from time to time by the Board of Management, which may decide on necessary revisions or interpretations.

Reporting violations

Any Wärtsilä employee becoming aware of a potential violation of this Code must contact his or her superior or Wärtsilä Legal Affairs. The president of the respective subsidiary must be informed, unless he or she is party to the alleged violation, in which case the Group General Counsel of Wärtsilä Corporation must be contacted. Wärtsilä will investigate all reported matters with discretion. Wärtsilä shall not take any adverse actions as a result of such reporting against any employee reporting in good faith what he or she believes to be a violation of this Code.

Sanctions

Violation of this code may lead to a warning, the termination of employment, and the payment of damages. Additionally, certain violations of a criminal nature can lead to criminal sanctions, such as fines or imprisonment.

Approved by the Board of Management in 2011.

Quality, Environmental, Health and Safety Policy

We shape the marine and energy markets with advanced technologies, and focus on lifecycle performance to enhance our customers' business and benefit the environment being:

- **Reliable and safe**
- **Efficient and environmentally sound**
- **Compliant with the applicable legal requirements and regulations.**

We continue to improve our performance and reduce adverse environmental impact to satisfy our customers and other stakeholders.

We create and maintain safe and healthy workplaces for our employees and partners in all of our business operations. We give our employees the authority to stop work if conditions are unsafe or quality is compromised.

Our skilled organisation acts as a responsible global citizen.

Approved by Wärtsilä Board of Management 10.12.2015



Jaakko Eskola
President & CEO

Employee practices

Wärtsilä's corporate policy on equal opportunities and fair employment practices creates a common framework for employee practices in all Wärtsilä companies and contains the following sections: Equal opportunities, Human and labour rights, Well-being at work, No harassment accepted, Remuneration, Implementation, and Violations.

Equal opportunities

Wärtsilä is committed to fostering equal employment opportunities, in which individuals are selected and treated on the basis of their job-relevant merits and abilities, and are given equal opportunities within Wärtsilä.

Wärtsilä's policy is to treat all employees equally on the basis of their merits, without discriminating them on the basis of their race, ethnic or national origin, colour, gender, family status, sexual orientation, creed, disability, age, or political beliefs.

Employee benefits and remuneration

The basic principle for remuneration in the company is to pay the same wage for the same job and the same performance. The salary is meant to be just, fair, and encouraging. Differences in individual salaries are based on how demanding the job is, on differences between competence, work experience, and performance, and not on gender.

In general, temporary and part time employees are offered the same benefits as permanent employees. In some countries, eligibility is linked to months or years of service – such differences being typically based on collective agreements according to local legislation.

Individual salaries are reviewed once a year in connection with the performance review and in the framework of annual salary increase guidance. The company may pay employees an annual bonus in accordance with company rules and based on separate bonus agreements. Based on financial and individual performance, the bonus outcome is determined once a year. Employees

may be paid a spot bonus based on exceptional performance. Benefits, such as a company car, service year award, and well-being, fitness, and health services, are planned and implemented locally taking into account both company guidelines and national practices.

Minimum notice period

Wärtsilä complies with European Union directives, local acts of co-operation in the companies and corporations, collective agreements and equivalent regulations concerning consultation and local bargaining. Concerning the termination of employment, Wärtsilä respects national labor union agreements and employment legislation.

In the case of occurrences having significant business or social implications, such as personnel redundancies, the transfer in full or part of production facility location, structural changes, as well as transnational effects, the EWC Working Committee and/or local employee representatives are consulted before decisions about such matters are made or, if that is not possible, as soon as possible. The objective is to provide information about any significant operational change at the time of planning.

Competency management

Wärtsilä's Competency Management and Development frame is a structured way to carry out long-term competence development plans within our businesses and functions. Wärtsilä has defined 16 global job families consisting of generic job descriptions for seven different demand levels. In the job description, the most critical competencies of the job are defined and used as a basis for individual position competence requirements. Typically in the connection of annual development discussion, individual competencies are assessed against the job requirements and position profile. Competence assessment of our employees and a comparison with competence targets allow us to analyse competence gaps and create development plans accordingly.

All learning and development activities in Wärtsilä strive to develop, maintain, and renew the short- and long-term skills and competencies required to fulfil our strategy. Having the right competencies available at the right time and being able to continuously adapt to a changing business environment are critical success factors for Wärtsilä.

Consultation and information procedures in Group companies

Wärtsilä's procedures for consultation and information within the Group are arranged in each country according to local legislation. Wärtsilä's Code of Conduct calls for ongoing and open dialogue between the company's management and employee representatives through co-determination bodies, and employees are kept informed of both the Group's situation and that of their particular company. Company management and personnel engage in an open discussion also in those countries where there are no formal co-determination bodies as such. Regular briefings for personnel are an integral part of the operating procedures of Wärtsilä companies. Employee participation in decision-making also extends to occupational health and safety (OHS). Most Wärtsilä units have an OHS committee with representatives from all personnel groups.

In addition to Wärtsilä's procedures for consultation and information for employees at the local level, the European Works Council (EWC) handles issues that affect at least two companies located in the EU and the Group as a whole. The EWC and its working committee play an active role in considering and pursuing transnational issues.

Dialogue at the individual level is conducted through development discussions, which are held at least once a year. The subjects covered in these discussions range from the Group's and business unit's targets to the individual's job description, competence development, career alternatives, personal targets, and feedback. Development discussions are by definition held with all employees.

Employees are able to have a direct impact on the company's operations and their development by making suggestions. Each Wärtsilä employee can offer suggestions for improvement in operations either through the continuous improvement process (CIP) or by submitting private initiatives. CIP-proposals are discussed jointly and need a common decision to be put into effect. Individual initiatives are evaluated by experts within the company and, if found to be feasible, are put into effect. Another global channel for new ideas is the MyDea tool in the Idea Management portal via which new ideas concerning products and solutions, operational development, and business are proposed and channeled to the nominated substance owners for comments and further reviews.

Business performance updates are given to all personnel on a regular basis in connection with Wärtsilä interim reporting. The company intranet "Compass" and the employee magazine "Wattsup" are the common global channels for internal communication.

Recognition of excellent performance

Wärtsilä encourages its employees to be innovative by granting an annual Technology and Innovation Award either to an individual or to a team for the best technical innovation of the year. The award criteria are that the invention must be innovative and environmentally sound, it must represent leading technology, improve a product or process, and offer potential for cost savings. Wärtsilä also grants annually a Customer Care Award for a team or individual who actively participated in the initiatives leading to development of business operations, quality improvements in how we serve and partner with customers, customer satisfaction, or Wärtsilä values demonstration.

Management system

Wärtsilä's management system aims to generate added value for Wärtsilä's various stakeholders, achieve the company's strategic objectives, support sustainability performance, manage operating risks, and enhance Wärtsilä's performance through the continuous improvement process. The system includes a range of tools, such as systems for managing quality, the company's environmental responsibilities, and occupational health and safety. Management reviews are conducted at various levels of the organisation to monitor the effectiveness of the system, the achievement of targets, and the development of key performance indicators. Wärtsilä's processes are developed in the Businesses, the Business lines and the Functions. These development projects are governed by the Wärtsilä Controllers' meeting and OD Portfolio Management Team, Wärtsilä Presidents' Quality Review and Quality Reviews, the Functional Management Teams, and Wärtsilä Digital Leadership team.

Wärtsilä's Board of Management is responsible for defining the company's main strategies, principles and policies, and for the management system itself. The Board of Management regularly monitors the effectiveness and performance of the management system. Responsibilities are distributed to the line organisation at all levels of the company, and the management system defines a specific sphere of responsibility for each Wärtsilä employee. Work groups for developing the management system are appointed at the corporate level and in most Wärtsilä subsidiaries. At the Group level, the following work groups coordinate the development of product and operational issues:

Work group	Focus	Main tasks
Wärtsilä Presidents' Quality Review	Quality	Overall responsibility for Wärtsilä's quality, quality process improvement, and achievement of strategic quality goals.
Wärtsilä Controllers' Meeting	Strategic operational development	Overall responsibility for Wärtsilä's operational development and the operational development plans, and governing the work of IM and Process development
Business Line Quality Reviews	Quality	Support and oversee quality development based on customer perception of our quality and full end-to-end lifecycle view. Platform for focusing on the key improvement areas with the biggest impact to our customers. Cross-functional decision making to increase efficiency and shorten resolution lead time.

Wärtsilä OD Portfolio Management Team	Operational development	Operational development road map, targets, and guidelines based on business strategies and targets, and overall operational development process responsibility for the approval of the Wärtsilä Controllers' Team. Cross-divisional operational development alignment and harmonisation.
Wärtsilä EHSS Management Team	Environmental, health and safety and security (EHSS)	Overall responsibility for Wärtsilä EHSS, EHSS management system development, corporate level overall responsibility for Wärtsilä EHSS measuring and target setting, and monitoring of legislation developments.

Management systems

Proportion of Wärtsilä companies with certification

Quality (ISO 9001)	93%
Environment (ISO 14001)	69%
Occupational health and safety (ISO 18001)	70%

People management

Wärtsilä's People Strategy is as an integral part of group strategy, and supports the company's businesses and the successful implementation of their strategies. This is achieved by developing the company's organisation, competencies and way of working to meet both the current and future business needs.

The key focus areas of the strategy are the further development of leadership and a leadership culture, as well as an emphasis on high performance and operational excellence throughout the organisation. Strengthening accountability and ownership is encouraged by promoting employee engagement through a culture of open communication, integrity, and innovation. Similarly, the strategy ensures that the businesses have the required resources, and skilled and motivated people at their disposal. This involves the implementation of changes within the organisation, a continuous focus on competence development and performance excellence, with quality in the setting of targets, proper and regular feedback, the evaluation of overall performance, and recognition of outstanding performance.

Wärtsilä's People Strategy

<p>Leadership</p> <ul style="list-style-type: none"> • We have leaders demonstrating Wärtsilä values in their everyday working behaviours. • Leaders take ownership in their role of leading people, change & business. 	<p>High performance</p> <ul style="list-style-type: none"> • Performance Management is embedded in daily business. Performance excellence is recognised and rewarded. • Organisational design and development are strategy driven and flexible. 	<p>Talent development</p> <ul style="list-style-type: none"> • Talent is valued. • We encourage and provide growth opportunities to our people and develop strategic and critical competencies.
<p>Resourcing</p> <ul style="list-style-type: none"> • We have a strong employer brand and compelling employee experience, which attract people with the right attitude, mindset and competences. • Longer term resource plans are based on strategic goals, growth areas and emerging competence needs. Flexible resourcing approaches are applied where applicable. 	<p>Company culture</p> <ul style="list-style-type: none"> • We drive transformation of the company by supporting digitally enabled ways of working, collaboration and sharing across the company. • We develop a working environment supporting innovation and collaboration. 	<p>Efficient, value adding people process management</p> <ul style="list-style-type: none"> • Utilisation of intelligent automation and people analytics to add more value to both decision-making and process execution.

Wärtsilä Human Resources focuses on developing people management processes, tools, and ways of working that are consistent across national and organisational boundaries. In particular, an intensive effort has been made to further develop managerial skills in people management. In 2017, the performance management process focus was in improving the feedback process in the organisation and supporting line managers in their daily leadership role. Wärtsilä Human Resources invests in technologies and tools that enable quick access to online reports, employee information, and annual compensation planning for both local and multi-country teams.

Transforming company culture

Together with the digital transformation initiatives Wärtsilä promotes new ways of working and company culture. Wärtsilä's purpose is driving all our activities and the company's values of "Energy, Excellence and Excitement" are strengthened by the diversity of its employees. Wärtsilä aims to capture opportunities and make things happen, to do things better than any of its competitors, and to foster openness, respect, and trust while creating excitement. A diverse workforce generates innovation, higher profits, has better complex problem-solving skills, and enables access to a larger talent pool.

Performance management

One of the essential elements of the Wärtsilä People Strategy is to embrace and develop a culture of high performance and performance excellence throughout the organisation. Coaching to achieve better performance through smart target setting together with continuous and real-time feedback is a vital element.

The well managed performance management process supports Wärtsilä in reaching its business targets by translating business strategies into team and individual objectives. Each Wärtsilä employee needs to know and understand Wärtsilä's business strategies and their goals. More importantly, everyone needs to know the main targets set for their own units, and the target areas related to their own work. More focus has been put on the quality and impact of the process by emphasising the importance of continuous feedback, expected behaviours, and opportunities for personal growth.

The good coverage of development discussions has continued. The global coverage of the annual development discussions was 96.4%. As a part of the performance management process, each employee receives performance feedback and an evaluation based on their overall job performance, as well as a personal development plan for the future. Overall performance evaluation is one of the considerations in compensation decisions, and is in line with the principle of performance-based rewarding.

Learning and development

In 2017, Wärtsilä continued its leadership development activities in many areas. New learning solutions for line managers have been developed to support them in their people management and leadership roles. The annual executive development programme (LLP) was held in November, and six other global leadership development programmes for senior managers were held during the year.

The first implementation of the Growth Lab programme, which focuses on future leaders' development, was kicked off in August 2016. Growth Lab 2017 started in August 2017 and twenty Wärtsilä managers and future leaders, with 7 to 15 years' work experience, were nominated for this action learning programme. The participants have been given three project assignments by the Board of Management. These projects are aimed at analysing and building possible future business opportunities. The second Growth Lab programme will end in the end of April 2018.

Wärtsilä's HR organisation has developed the Operational Excellence Academy learning framework and an Operational Excellence learning portal with supporting materials for all those staff members in the organisation involved in leading operational excellence. More than 200 senior managers have participated in operational excellence learning modules during 2016 and 2017. The aim of the OE Academy is not only to learn, but to establish operational excellence as an integrated part of the company culture and way of working, and to ensure continuous efficiency improvement.

Learning on the job, self-learning, mentoring, coaching, job rotation, and assignments designed to encourage competence development and the transfer of competence and skills from experienced to younger employees, are integral parts of the development of learning and competence within the company. Employees are given formal classroom training at all organisational levels; from induction training for new employees, to training courses for the company's top executives. Wärtsilä employees attended a total of 39,158 training days during 2017; an average of 2.2 training days per employee.

In 2017, HR together with the Wärtsilä Land & Sea Academy launched a new global learning management system WeLearn. The new cloud version is more user friendly and features the latest learning management system (LMS) capabilities, which are translated into an enhanced user experience. This supports the organisation's present and future needs in terms of virtual learning, collaboration, reporting, assessment, and finally mobility; enabling users to learn anywhere, anytime. The new LMS was operational in the end of the second quarter of 2017.

Engagement

At Wärtsilä, equal opportunities and opportunities for personal growth are core principles. The company supports its employees in self-improvement and in finding their own path within the company. Recruiting and retaining the best talent enables Wärtsilä to be the valued business partner of its customers, and the employer of choice for current and future employees.

In autumn 2017, it was decided that Wärtsilä will invest in a new recruitment system and, more importantly, in the development of recruitment and onboarding processes. The development project has been established, vendors selected and the launch will be by the end of the second quarter of 2018. Through this change Wärtsilä endeavours to attract new talent, improve the candidate experience and promote Wärtsilä's employer brand.

Environmental management

The environment is the key element in Wärtsilä's approach to sustainability. In 2017, Wärtsilä announced its purpose for "enabling sustainable societies with smart technology". One of the three key ingredients for this targeted industry transformation is to achieve a clean environment, and Wärtsilä's environmental management practices gives full support to reaching this goal.

For Wärtsilä, environmental responsibility has two dimensions: products and operations. Most of the efforts to improve the company's environmental performance, including its operations, are conducted as part of the product development and improvement processes. This work is supported by operational measures, which are based on achieving high environmental standards and which seek constant improvement.

The continual improvement in environmental performance requires the organisation to consistently work in a systematic way. This work is guided by the company's strategy and its environmental targets, the Code of Conduct, and policies relating to Quality,

Environment, Health and Safety, and it is co-ordinated and monitored by the cross-business EHSS Management team. In developing its operations, processes, and products, Wärtsilä endeavours to utilise the latest technologies available for improving efficiency in areas such as material and energy consumption, as well as for reducing and managing emissions and waste throughout the lifecycle of its products and services.

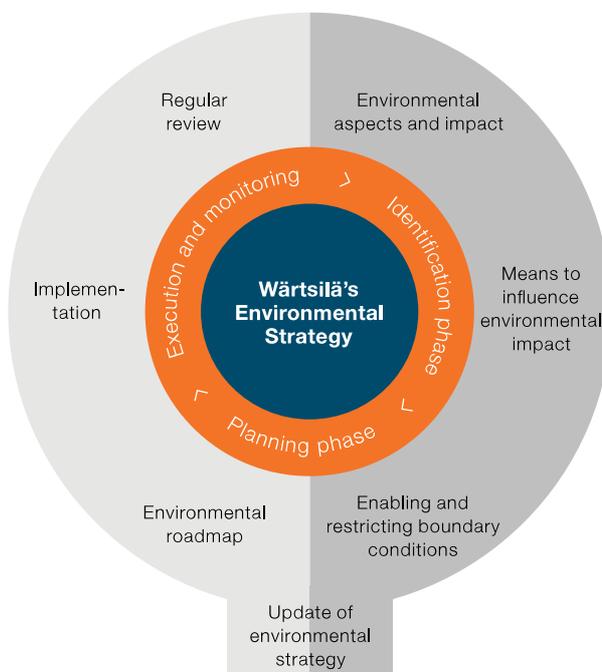
Wärtsilä has defined a process for developing an environmental strategy and targets for its products. The process includes the identification of aspects and impacts of the products, the means to influence these impacts, the identification of enabling and restricting boundary conditions, analyses of the information, and the preparation and implementation of the strategy and targets.

Wärtsilä continuously develops and improves its operations and products with the help of certified environmental management systems. The principle means is to apply certified EHS (Environmental, Health and Safety) management systems based on ISO 14001 and OHSAS 18001 in all Group companies, excluding those companies focusing purely on sales. These units are required to apply Wärtsilä's internal EHS model, which was aligned in 2016 to meet the requirements of the new ISO 14001:2015 standard. Wärtsilä's EHS management systems cover all operations of its subsidiaries, which allows environmental protection and the reduction of adverse impacts to be promoted on a wide front. Currently, Wärtsilä is undergoing a transformation involving changing subsidiary management system certificates to business line specific certificates. This transformation is expected to be completed by end of 2018.

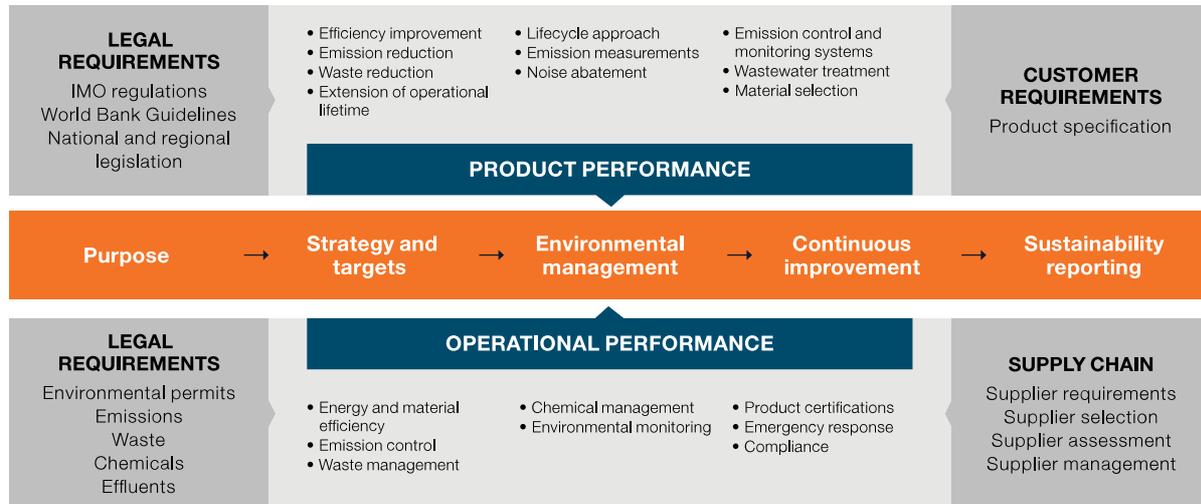
The company's EHS management system emphasises compliance with legal requirements, identifying and reducing environmental aspects, impacts and risks, training personnel and clearly defining their responsibilities, the full documentation of activities and procedures, actions to be taken in emergencies, and the continuous improvement of environmental performance. The company's subsidiaries and business units set their own targets for covering the significant environmental aspects of their operations, and for monitoring the overall performance of the management systems.

At the end of 2017, 57 Wärtsilä companies operated with a certified environmental management system. These certified environmental management systems cover roughly 87% of Wärtsilä's total workforce.

Wärtsilä's environmental strategy – a continuous process



Environmental management in Wärtsilä



Occupational health and safety

Wärtsilä's occupational health and safety principles are defined in the Code of Conduct, the company's Quality, Environmental, Health and Safety (QEHS) Policy, and in the directive on environment, health, and safety (EHS). Wärtsilä's subsidiaries are required to have a management system in place that conforms to the QEHS Policy and the EHS directive. The main aspects of the management system relate to compliance with legislation, identifying and minimising occupational health and safety risks, personnel training, implementing effective health and safety programmes and instructions, recording and investigating occurred incidents, and the continual improvement of occupational health and safety performance. At the end of 2017, 58 Wärtsilä companies operated with a certified occupational health and safety management system, covering roughly 87% of Wärtsilä's total workforce. Currently Wärtsilä is undergoing a transformation involving changing subsidiary management system certificates to business line specific certificates. This transformation is expected to be completed by the end of 2018.

In addition to the management system, Wärtsilä companies apply occupational health and safety programmes as required by local legislation. These are normally developed by occupational health and safety committees made up of company management and personnel representatives. Altogether, 78% of Wärtsilä companies currently have an occupational health and safety committee.

The indicators used to measure occupational health and safety performance include the number of accidents, the time of absence due to sickness, the frequency of accidents, and the number of near miss / hazard observation reports. Wärtsilä has set a corporate level target of achieving zero injuries. This target is a long-term commitment from the company to strengthen a safety culture, and it requires actions from all Wärtsilä companies and employees. The safety performance of the companies is monitored on a monthly basis and the results are reviewed by the Board of Management. To further strengthen Wärtsilä's safety culture, a new global programme known as ZeroMindset has been introduced. ZeroMindset focuses on three key elements: leadership, the shared safety mindset of individuals, and effective safety tools and practices. In 2017, the main focus of the ZeroMindset programme was on leadership and 1,542 Wärtsilä management level employees participated in face-to face "Leader in Safety, Leader in Business" workshops led by certified local facilitators throughout the Wärtsilä network. The first group to participate in this workshop was Wärtsilä's Board of Management, followed by 19 senior business management teams.

In addition, Wärtsilä held its third global Safety Day, which took place on 10 March 2017. The theme for this event was "Stop and Care", encouraging everybody to act when observing unsafe practices. This Safety Day was a great success, with local events held in locations throughout the entire Wärtsilä network. As part of the events, employees participated in team discussions based on a web quiz and "stop and care" videos.

Responsible business conduct

Human and labour rights

Wärtsilä supports and respects basic human values as outlined in the UN's Universal Declaration of Human Rights. Wärtsilä also supports the Ten Principles of the UN Global Compact, of which six principles are related to Human and Labour rights.

Wärtsilä's employees represent 136 nationalities. The company supports fair and equal treatment of all its employees. Wärtsilä supports the work-related rights defined by the International Labour Organization. Therefore the company works to ensure that there is freedom of association and right to collective bargaining in the company. In those countries where local legislation does not recognise these rights, Wärtsilä endeavours to give employees other channels for expressing their opinions.

Wärtsilä does not accept the use of forced labour or child labour in any form. Human and Labour rights are a part of the Wärtsilä Code of Conduct training material and also the Wärtsilä Supplier Handbook. At the end of 2017, 89% of Wärtsilä's employees have successfully completed the renewed Code of Conduct training.

Preventing corruption and bribery

Wärtsilä's Code of Conduct, Anti-Corruption Policy, as well as specific Policies implemented for sales intermediaries, namely Agent, Broker and Distributor Policies, expressly prohibit the company and its employees from offering or accepting any kind of benefit considered to be a bribe and from taking actions that could give rise to a conflict of interest or breach of loyalty. The instructions make it compulsory to comply with anti-corruption laws of all the countries in which Wärtsilä does or intends to do business and urge the reporting of any cases of corruption and bribery. The company continues to rendering an extensive training programme for its personnel on anti-corruption principles and applicable legislation as well as the relevant company policies and procedures. At the end of 2017, 92% of Wärtsilä's employees have successfully completed the Anti-corruption training.

Political lobbying

Wärtsilä's policy is to engage in an open dialogue and discussion with both local and international public authorities and officials. The aim of the dialogue is to share information and improve the quality of regulation. Wärtsilä participates in public consultations in the areas of importance to the company. Wärtsilä is part of the Transparency Register of the European Commission.

Competition regulation

Wärtsilä has a compliance programme for managing risks relating to competition law in place, and the company's management is strongly committed to implementing this programme. The cornerstone of the programme is a competition law manual, which is kept up-to-date, providing information on competition rules and guidelines for Wärtsilä's personnel. An updated competition compliance program was launched in 2017 and a number of trainings were held for the relevant personnel in order to promote knowledge of competition laws and thereby ascertain full compliance with them.

Security management

Wärtsilä has a corporate security policy and various guidelines, which incorporate human rights considerations and international best practices. Wärtsilä's security management principles and strategies are reviewed and approved in the Wärtsilä Security Steering Group, which consists of Presidents of each Business, Executive Vice Presidents for Digitalisation, Corporate relations & Legal affairs, as well as Finance & Control and security professionals. Security management in Wärtsilä is divided into six specific security areas: Personnel, Premises, Information, Cyber, Crisis Management, and Travel Security. Operational security management in these areas is implemented on the business and local level. Wärtsilä prefers security service providers who are members of ICoCA (International Code of Conduct Association).

Local community approach

Wärtsilä aims to contribute towards the well-being of local communities in which the company is present. This can be reached, for example, by creating employment, paying taxes and social dues, providing training and education to employees, co-operating with local stakeholders, and by supporting local development.

The guiding principle of Wärtsilä's Code of Conduct is to promote openness and good interaction with its stakeholders locally. This applies as much to the families of personnel, our neighbours, educational institutions, and the media, as to local authorities and officials. The methods used towards this end include Open Door days, press briefings, and different modes of communication for different target groups.

As a truly international company, Wärtsilä has delivered solutions to more than 170 countries. Wärtsilä supports its solutions globally during their entire lifecycle, often spanning up to 30 years. Thus, Wärtsilä can at times be present in countries facing various uprisings, ethnic conflicts, area disputes, or violations of human rights. Conducting business locally emphasises the importance of responsible business practices. Governments and the international community define the proper framework for companies to conduct their business. Wärtsilä complies with relevant legislation and international conventions. Wärtsilä complies with all relevant guidelines of the OECD and the International Chamber of Commerce and with the sanctions set by the United Nations and the European Union, by supporting their implementation. In addition, the Wärtsilä Code of Conduct applies to all Wärtsilä employees. We are committed to sustainable development and responsible business conduct, and we promote the Ten Principles of the UN Global Compact within the sphere of our influence.

Wärtsilä's impact on employment, the public sector, and the company's activities for charitable purposes are described in the Economic Performance section of this report. Measures to evaluate the impacts on local communities in case of operational changes of Wärtsilä subsidiaries are determined case by case.

Product design principles

Wärtsilä strives to develop environmentally sound, safe, and reliable products and solutions for its customers. By providing lifecycle maintenance, reconditioning, and retrofitting services for its products, Wärtsilä is able to support its customers' operations throughout the entire life of service of Wärtsilä products. Reconditioning of engines and components increases the reliable service life of the products. Modernising can improve current operational performance of installations and enables customers' operations to meet tightening future regulatory requirements.

The majority of the international environmental policies and requirements for Wärtsilä's products and solutions are set by the International Maritime Organization (IMO), and the International Finance Corporation (IFC), a member of the World Bank (WB) group. On the regional or national level, organisations such as the United Nations Economic Commission for Europe (UNECE), European Commission (EC), US Environmental Protection Agency (EPA), and other emission standards such as in Germany, Japan, and India are considered the most important policy and regulatory directors for Wärtsilä products.

The IMO is responsible for adopting its own standards for the safety and security of shipping and the prevention and control of marine pollution and emissions from vessels. The IMO regulates nitrogen oxides and fuel sulphur content as well as ballast water treatment procedures and limitations. The IFC provides general and industry specific Guidelines of Good International Industry Practices (GIIP) such as the Environmental, Health, and Safety (EHS) Guidelines for Thermal Power Plants, which is today considered the minimum environmental standard in larger global power plant projects. It is adhered to in most of the projects financed by international financial institutions in emerging markets. In the European Union (EU), the Industrial Emissions Directive (IED) and the Medium Combustion Plant Directive (MCPD) set the requirements for large and medium-sized combustion plants to minimise pollution from different industrial sources throughout the EU.

Wärtsilä's engines are designed to meet the requirements of the EC's Machinery Directive, the SOLAS Convention and other relevant safety directives. Wärtsilä's propulsion systems are designed to comply with the SOLAS and safety requirements of relevant classification bodies. New types of engines must also meet international safety requirements. Type approval is acquired from classification societies before new products are launched. Wärtsilä's ship design follows class society and flag state rules in the design process to secure safe and compliant designs for its clients. Class approval is required for drawings and calculations to be delivered to the client before construction of the vessel starts.

Wärtsilä's products are delivered with appropriate user guides that include basic information about the products and full instructions for their use. In addition, Wärtsilä provides appropriate specific training to ensure environmentally sound and safe utilisation of Wärtsilä's products at customers' daily operations.

In order to ensure Wärtsilä's ability to respond to future regulation requirements, the company actively monitors legislative initiatives and changes in environmental legislation. As a result, Wärtsilä has focused its R&D activities on the development of new environmentally sound products and solutions that meet the future demands of the changing operating environment.

Supply chain management

Suppliers play a significant role in our delivery process. We aim to have close and excellent relationships with our key suppliers in order to ensure that both parties understand and comply with our strict process and product requirements. Apart from financial benefits, close relationships stimulate knowledge sharing, create an environment of innovation, and integrate more strongly strategic suppliers into Wärtsilä's value chain. Wärtsilä has an extensive supply base with more than 25,000 active suppliers, most of whom are located in Europe, where we have our main production units. We are also continuously investing in developing a strong supply chain network in Asia.

Wärtsilä has defined processes for selecting suppliers, determining their requirements, and developing the supply relationship. We offer our suppliers a partnership that strengthens the competitiveness of both parties. A precondition of this partnership is an open and continuous dialogue. The partnership approach is also applied in Wärtsilä's research and development activities, in which we often collaborate with universities, research institutes, and key suppliers.

Wärtsilä's supplier requirements address both general features and issues relating to quality, product-specific requirements, environmental management, occupational health and safety, social responsibility, and legal compliance. These requirements are included in standard supply contracts. Suppliers are also responsible for complying with relevant laws and regulations. Wärtsilä monitors that key suppliers comply with these requirements by using performance indicators and conducting various types of audits. Suppliers must demonstrate their compliance with these requirements in order to receive approved supplier status.

Wärtsilä assesses and manages its key suppliers through its Supplier Management System. Wärtsilä regularly conducts supplier evaluations, which are divided into three categories: pre-assessment, auditing, and performance review. In the pre-assessment phase, Wärtsilä assesses potential new suppliers before the supplier relationship begins. Audits are conducted for new suppliers of critical components and for suppliers whose performance does not meet Wärtsilä's requirements. Performance reviews are carried out to identify and solve deviations from the requirements.

As part of the supplier evaluation, Wärtsilä conducts a rating based upon Wärtsilä's supplier requirements. This rating is a result of an assessment of various information sources, such as pre-qualification questionnaires, dialogue with suppliers, and/or conducted audits. Based on this rating, the suppliers can be approved, approved with remarks, or banned. During 2017, 137 suppliers with no valid assessment were rated, and 167 suppliers received a renewal of their rating (valid for 3 years). By the end of 2017, we rated 687 out of our 1,120 key suppliers, which covers 93% of key supplier spend, and 2,968 suppliers in total with a spend coverage of 70%.

This rating is part of the quarterly supplier reviews conducted by Wärtsilä Supply Management. The rating is reviewed regularly, as are the results of conducted audits.

In 2017, 13 suppliers were banned because of non-compliance with Wärtsilä's requirements, including five for sustainability reasons.

Wärtsilä has clear expectations towards its suppliers in terms of compliance with relevant legislation, environmental, quality, and occupational health and safety management, and social performance, and strives to ensure that these expectations are met. Wärtsilä develops its supply management system on a regular basis.

In 2018, Wärtsilä will be launching a risk-based supplier assessment and management system for new suppliers, which will be applied by 2019 also to existing suppliers.

Sustainability data

Economic

Wärtsilä's objective is to create value for its various stakeholders. The focus is on profitability and raising shareholder value. Achieving this depends on our ability to satisfy the expectations of our other stakeholders as well. These include providing customers with high-quality and environmentally sound products, solutions and services, as well as on building long-term partnerships with suppliers, offering employees competitive compensation and working conditions, and contributing to the well-being of the local communities in which Wärtsilä operate. Good economic performance establishes a platform for the other aspects of sustainability – environmental and social responsibility.

Economic performance

Direct economic value generated and distributed (GRI 201-1)

MEUR	2017	2016	2015	2014	2013
Customers					
Net sales	4 923	4 801	5 029	4 779	4 654
Suppliers					
Cost of goods, materials, and services purchased	3 021	2 969	3 136	3 066	2 901
Value added	1 902	1 831	1 893	1 713	1 753
Distribution of value added					
Distributed to stakeholders	1 656	1 593	1 555	1 475	1 443
Employees					
Wages and salaries	1 000	939	935	906	903
Public sector					
Taxes and social dues	336	343	349	313	314
Creditors					
Net financial items	-47	-53	-34	-28	-19
Shareholder					
Dividends	272	256	237	227	207
Communities					
Donations given	1	2	1	1	1
For business development	246	238	338	239	310
	2017	2016	2015	2014	2013
Customers					
Net sales (MEUR)	4 923	4 801	5 029	4 779	4 654
Net sales by market area (MEUR)					
Europe	1 527	1 581	1 566	1 402	1 329
Asia	1 948	1 774	2 051	1 989	1 759
Americas	1 113	1 039	1 006	840	1 068
Africa	233	313	329	398	405
Other	102	94	78	150	93
Suppliers					
Cost of goods, materials, and services purchased (MEUR)	3 021	2 969	3 136	3 066	2 901

Employees					
Salaries and wages (MEUR)	1 000	939	935	906	903
Salaries and wages by market area (MEUR)					
Europe	689	650	632	637	649
Asia	156	153	163	144	138
Americas	130	110	112	99	91
Africa	18	19	21	18	14
Other	7	7	8	8	10
Net sales/employee (TEUR)	276	262	271	265	248
Public sector					
Taxes and social dues (MEUR)	336	343	349	313	314
Taxes and social costs by market area (MEUR)					
Europe	235	246	246	220	232
Asia	45	45	50	42	34
Americas	42	47	44	37	39
Africa	13	5	6	12	8
Other	1	0	2	2	2
Subsidies received (TEUR)	9 891	8 343	9 669	11 486	6 331
Net financial items (MEUR)	-47	-53	-34	-28	-19
Community					
Donations given, Board of Directors (TEUR)	110	1 365	110	110	111
Donations given, Wartsilä companies (TEUR)	673	533	511	608	609

Financial implications and other risks and opportunities due to climate change (GRI 201-2)

Wärtsilä Italia S.p.A is the only subsidiary that falls into the scope of the EU Emission Trading Scheme (ETS) because of the heating plant of the factory. The EU ETS has not had any impact on the company's profitability. Wärtsilä's response to climate change is to develop and provide products, solutions, and services that enable our customers to reduce their greenhouse gas emissions. More information about Wärtsilä's solutions for climate change can be found on our website: www.wartsila.com. The potential business risks related to climate change and Wärtsilä's products are presented under the sustainability and climate change risks in the Risk Management chapter of the Governance review.

Defined benefit plan obligations and other retirement plans (GRI 201-3)

The pension cover is based on the legislation and agreements in force in each country. In Finland, most of the pension obligations are covered by the Employee Pensions system (TyEL). The largest defined benefit plans are used in Switzerland, Germany, the UK and Sweden. Most of these defined benefit pension plans are managed by pension funds, and their assets are not included in the Group's assets. Wärtsilä's subsidiaries make their payments to pension funds in accordance with the local legislation and practices in each country. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans. More information on the Group's pension obligations can be found in the Financial Review, Note 21. Pension obligations.

Financial assistance received from government (GRI 201-4)

Subsidies received (TEUR)	2017	2016	2015	2014	2013
	9 891	8 343	9 669	11 486	6 331

The value of the subsidies received in 2017 was EUR 9 891 thousand and they were among others related to R&D projects. The most contributing countries in 2017 were China, Finland, Spain, and Norway.

Market presence

Ratios of standard entry level wage by gender compared to local minimum wage (GRI 202-1)

Wärtsilä applies and follows local employment legislation in all countries, and respects local collective labour agreements, which often define the minimum wage levels. In addition, entry level salaries are benchmarked against the market references by function and educational qualification. While laws and regulations determine the minimum level, the actual salaries often exceed these levels. A total compensation package for employees in each country is in line with the corporate rewarding guidelines, local market practices, and labour agreements. The base salary is set to meet market conditions, the demands of the job, and individual competence and performance.

Proportion of senior management hired from the local community (GRI 202-2)

Wärtsilä always publishes all open vacancies internally, thus ensuring an equal opportunity to apply for Wärtsilä positions. If there is no specific reason, such as a competence transfer need from other countries, to hire expatriates to the position, local residents are hired. This principle also applies to senior management positions. Senior management consists of global business and corporate management and local company management positions. Globally, 69% of Wärtsilä's senior management is locally hired, in other words from the same country as the Wärtsilä subsidiary they work for.

Environment

The environmental impacts of Wärtsilä's operations largely relate to manufacturing. The main environmental aspects of manufacturing relate to the use of energy and natural resources and thus also to the emissions that are produced by the manufacturing processes. Product development also requires the testing of products and individual components which, alongside manufacturing, loads the environment. However, the positive impacts of product improvements on the environment far outweigh the negative impacts of testing when taking the product's entire lifecycle into account.

Materials

Materials used by weight or volume (GRI 301-1)

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys, and bronze. In 2017, the total material usage was 73 738 tons (84 913). The major material groups were various metals 75%, sand 18%, and various chemicals 2%.

Materials	2017	2016	2015	2014	2013
Total material usage (t)	73 738	84 913	100 767	88 736	91 720
Metals (t)	55 416	59 898	73 285	65 363	69 991
Sand (t)	13 493	18 399	20 915	16 445	16 537
Chemicals (t)	1 575	1 831 *	5 025	5 447	3 865
Others (t)	3 255	3 601	1 542	1 481	1 327

* A substantial error in reporting classifications was corrected in 2016, meaning that the figure is not directly comparable to earlier years.

Recycled input materials used (GRI 301-2)

The main materials used in Wärtsilä products are various metals: cast iron, alloy and structural steel, aluminium alloys and bronze. Recycled material content of these metals vary depending on the material and supplier in question. Recycled material, such as end-of-life coins and bronze propellers, is used for example in the casting of new propellers.

Energy

Energy consumption within the organisation (GRI 302-1)

The total energy consumption (in terajoules, TJ) includes the electricity, heat, and fuels used in Wärtsilä companies in recent years. The fuels are used mainly in engine testing, but also in heating, production, and transportation. In 2017, the fuels were from non-renewable sources.

Wärtsilä uses electricity in its manufacturing operations - for example in machining components - and in service workshops and offices. Both the electrical and the heat energy generated during engine test runs can be utilised. Wärtsilä's aim is to use the electrical energy for its own purposes while also selling part of this electrical energy to local power companies. Due to the nature of engine test runs, the production of electricity and the company's electricity demand are not equivalent; this allows the surplus energy to be sold to local power companies.

Heating for factories and offices accounts for most of Wärtsilä's consumption of heat energy. In several factories, the heat generated in engine test runs is used for heating. Some factories and offices are connected to a local district heating network, some have their own heating plant, and some use electricity for heating.

Energy	2017	2016	2015	2014	2013
Total energy consumption (TJ)	1 477	1 471	1 539	1 475	1 613
Electricity consumption (MWh)	131 960	139 363	142 819	140 713	143 833
Purchased electricity (MWh)	128 176	132 771	131 501	131 896	136 098
Generated electricity (MWh)	3 784	6 592	11 318	8 817	7 735
Sold electricity (MWh)	28 066	23 620	21 834	25 548	23 527
Heat consumption (MWh)	36 890	33 542	30 161	25 073	29 077
Light fuel oil (t)	4 327	3 918	4 801	4 461	4 765
Heavy fuel oils (t)	3 798	3 647	3 675	3 579	3 755
Natural gas (t)	8 393	8 614	9 750	8 721	9 806
Other fuels (t)	2 811	3 209	2 834	3 348	4 214

Energy intensity (GRI 302-3)

Energy	2017	2016	2015	2014	2013
Total energy consumption (TJ/ Net sales)	0.308	0.313	0.334	0.319	0.354

Reduction of energy consumption (GRI 302-4)

From the start of 2017, Wärtsilä set an energy saving target to reduce energy consumption by at least 7% in terms of absolute consumption (GWh) by 2025, compared to the energy consumption in 2015. In the first year to the new target, permanent energy savings of 942 MWh was reached, mainly by reducing electricity or heat consumption. Wärtsilä's previous energy saving target period was launched in 2008 and ended in 2016, resulting in permanent energy savings of 43.3 GWh.

Energy savings	2017	2016	2015	2014	2013
Annual energy savings (GWh)	0.9	1.3	4.6	1.9	15.7
Cumulative energy savings (GWh)	0.9	43.3	42.0	37.5	35.6

Water

Water withdrawal by source (GRI 303-1)

Wärtsilä's water consumption can be divided into two categories: domestic use and cooling use. Domestic water is used mainly for sanitary purposes and by industrial equipment, such as machine tools and washing machines. Some factories also use domestic water to produce moulds or to fill in their closed-loop cooling system needs. Wärtsilä uses seawater for its engine and process cooling needs.

Total annual water consumption split by the water withdrawal source: Out of cooling water about 99% comes from local surface watercourses where only heat is released along with clean water, and about 1% of cooling water comes from municipal water utilities. Out of Wärtsilä's total

water consumption in 2017, about 95% was seawater for cooling purposes, about 4% was from municipal water supplies, about 1% was directly withdrawn groundwater, and about 0.01% was rain water or waste-water reused from another organisation.

Water	2017	2016	2015	2014	2013
Total water consumption (1 000 m ³)	12 749	8 444	6 971	7 774	7 534
Consumption of domestic water (1 000 m ³)	631	613	703	683	744
Consumption of cooling water (1 000 m ³)	12 118	7 831	6 268	7 091	6 790

Water sources significantly affected by withdrawal of water (GRI 303-2)

No water source has been found to be significantly affected by any Wärtsilä subsidiary water withdrawal.

Percentage and total volume of Water recycled and reused (GRI 303-3)

Wärtsilä Italia S.p.A. recycled 123 164 m³ of water in 2017 by running it through a water treatment plant and reusing the cleaned water in production processes. The amount corresponds to roughly 42% of Wärtsilä Italia's annual water consumption and 1% of Wärtsilä's total water consumption in 2017. No other major water recycling processes are in use in Wärtsilä production facilities globally.

Emissions

Greenhouse gas (GHG) emissions and intensity (GRI 305-1, 305-2, 305-3, 305-4)

In addition to direct CO₂ emissions, Wärtsilä's operations generate indirect CO₂ emissions. In 2017, the calculated secondary CO_{2e} emissions were 56 002 tons (59 697) (from purchased electricity and heat) and the CO_{2e} emissions from flights totalled 34 846 tons (37 972). There were no biogenic CO₂ emissions in 2017.

GHG emissions	2017	2016	2015	2014	2013
Emissions of carbon dioxide (tCO _{2e}) (direct) (SCOPE 1)	57 998	57 355	63 441	57 477	59 631
Emissions of carbon dioxide (tCO _{2e}) (indirect) (SCOPE 2)	56 002	59 697	60 317	55 989	57 040
Emissions of carbon dioxide (tCO _{2e}) (indirect) (SCOPE 3) *	155 537*	168 571*	39 033	39 619	40 596
GHG emissions intensity (all)	56.1	60.8	35.3	33.1	34.5

* Includes indirect emissions from materials, energy, and flights from 2016 onward. Pre-2016 figures only include emissions from flights.

Reduction of greenhouse gas (GHG) emissions (GRI 305-5)

Wärtsilä has taken several measures to reduce its indirect CO₂ emissions. The energy efficiency commitment aims to reduce energy consumption and emissions. In addition, Wärtsilä's focus lies on reducing travelling by implementing a strict travel policy and by using three main virtual meeting concepts: Skype instant messaging, which enables live chats between two people or more, Skype meetings allowing multi-person meetings from personal computers, in which presentation material can be shared, and the Telepresence videoconferencing system. In Wärtsilä, Skype and Telepresence are in everyday use. Approximately 1 300 Skype conferences are arranged daily, 95 video conference rooms in 41 countries and 38 Telepresence rooms established in Wärtsilä premises in 19 countries. Additionally, several other collaboration tools have been taken into use. Although estimating the reductions from the above mentioned measures is not possible, several local measures have been estimated to have achieved permanent reductions of total 5 618 tons CO_{2e} in 2017.

Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions (GRI 305-7)

Air emissions are mainly caused by test runs and the painting of completed engines or other Wärtsilä products. Test run emissions consist of nitrogen oxides (NOx), sulphur dioxide (SOx), carbon dioxides (CO₂) and particles, as well as small amounts of other emission components. The painting of engines and other Wärtsilä products generates VOC emissions (volatile organic compounds). Engine emissions are reduced through

research and development, as well as product development and testing. These measures also generate emissions, but their results reduce the future emissions of manufactured engines.

Emissions	2017	2016	2015	2014	2013
Emissions of nitrogen oxides (t)	534	500	553	519	549
Emissions of sulphur oxides (t)	62	59	63	76	91
Emissions of total hydrocarbons (t)	131	116	145	87	130
Particulates (t)	8	9	9	9	10
Emissions of VOC (t)	36	30	40	40	49

The primary sources of manufacturing noise are the engine test runs and the ventilation machinery on factory roofs. This noise is mostly low frequency and is therefore not easily detected by the human ear. Wärtsilä has specifically addressed the issue of noise protection using technical means and has succeeded in lowering noise levels considerably. However, noise abatement is a continuous need and requires regular monitoring.

Effluents and waste

Water discharge by quality and destination (GRI 306-1)

Wärtsilä uses seawater for its engine and process cooling needs, in which case the cooling water system is kept separate so that only heat is released into the natural water system. Wastewater is sewer and piped to the local wastewater treatment plant or treated on site before being discharged. If the effluent is not suitable for discharge, it is taken away for appropriate processing, for example to a special treatment plant for hazardous wastes.

Several Wärtsilä subsidiaries have environmental permits allowing clean or properly treated water discharge into natural water bodies. Most of this discharge is clean cooling water released back into local surface watercourse, where only heat is released.

In 2017, the total amount of water discharge was 12 691 935 m³.

2017 water discharge	Municipal sewer	Sea	River	Ground	Re-used by other entity
Amount (m ³)	213 760	12 109 678	336 985	29 559	1 953
% of total water discharge	2	95	3	0	0

Waste by type and disposal method (GRI 306-2)

Manufacturing activities cause various wastes. These are divided into two main categories: hazardous and non-hazardous wastes. Hazardous wastes include cutting fluids, various types of waste oil, paints and solvents, oily wastes, solid wastes, etc. Non-hazardous wastes include scrap metal, metal swarf, waste plastics, waste wood, domestic waste, cardboard, and paper waste. All Wärtsilä companies sort their waste according to local municipal regulations. Generally speaking, the main sorting categories are waste to be incinerated, waste for landfills, and waste for recycling.

Waste management in Wärtsilä has four aims, listed in their order of priority:

- to reduce the amount of waste generated in processes
- to use waste as a material
- to use waste as energy
- to dispose of waste in an environmentally sound way

Waste	2017	2016	2015	2014	2013
Total waste (t)	32 580	50 020	52 037	46 829	44 741
Non-hazardous waste (t)	28 928	42 663	44 864	39 409	33 623
Hazardous waste (t)	3 651	7 357	7 173	7 420	11 118
Waste for landfills (t)	3 198	9 962	8 593	9 621	16 875
Waste for recycling (t)	23 647	30 695	34 074	27 328	14 622

Waste for incineration (t)	1 990	1 889	2 197	2 460	2 125
Waste for composting (t)	95				
Hazardous waste for landfills (t)	548	964	2 586	2 504	6 360
Hazardous waste for recycling (t)	2 113	5 470	3 502	3 792	2 796
Hazardous waste for incineration (t)	990	923	1 084	1 124	1 963

Products and services

Extent of impact mitigation of environmental impacts of products and services

Environmental products and services are the most important means for Wärtsilä to mitigate the environmental impacts. Wärtsilä has a key role in providing environmentally sound solutions and services that enable our customers to develop their business in a sustainable way. The value of sustainable innovation is delivered across a wide range of environmentally sound products and solutions, including technologies related to efficiency improvement, reduction of gaseous and liquid emissions, effluent and ballast water treatment, as well as to products and solutions that are flexible, efficient, reliable, safe, cost-efficient to operate, and that have a minimal environmental footprint throughout their lifecycles.

Expenditures

Total environmental protection expenditures and investments

Concerning Wärtsilä's operations, we have defined expenditures as environmental expenditures if they are related to soil, water and air pollution control, waste management, environmental management, or noise control.

A substantial proportion of the company's investments in product development are targeted at securing environmental compliancy providing short- and long-term benefits for the whole value chain and ultimately for the environment.

Expenditures	2017	2016	2015	2014	2013
R&D costs (MEUR)	141	131	132	139	138*
Environmental costs					
Environmental capital expenditures (MEUR)	4.0	0.7	0.5	1.9	0.6
Environmental operating expenditures (MEUR)	3.8	4.0	4.6	4.8	5.1

*restated, figures include continuing operations

Social

Wärtsilä's aim is to provide the best value and service to its customers by continuously developing its competences and way of working. The strategic goal of Wärtsilä's social responsibility and people strategy is to bring the business strategy alive by developing Wärtsilä's organisation and competences to meet the evolving business needs.

The aim is to have energetic, competent, and motivated personnel with exciting and meaningful jobs and career opportunities led by excellent leaders. Good performance is recognised and diversity respected. By applying high standards of occupational health and safety, Wärtsilä strives to offer a hazard-free workplace to its employees, contractors, and others working in different parts of the corporation.

Good corporate citizenship is accomplished through active co-operation, open communication, and good relationships with stakeholders. Wärtsilä's operations and relations with its stakeholders are based on the company's Code of Conduct, with which each Wärtsilä company and individual is required to comply.

Significant changes to the organization and its supply chain in 2017 (GRI 102-10)

In July Wärtsilä completed the acquisition of Greensmith Energy Management Systems Inc., a market leader in intelligent energy storage technology and solutions. The acquisition will enable Wärtsilä to expand its footprint in the energy storage market and position itself as a leading global energy systems integrator. The US-based Greensmith employs over 40 people.

In October, Wärtsilä reached an agreement to acquire Puregas Solutions, a provider of turnkey biogas upgrading solutions. The acquisition provides Wärtsilä with added equipment and expertise in biogas upgrading, and will complement well the company's existing position in the biogas liquefaction market. The Sweden based company currently has approximately 40 employees.

Also in October, Wärtsilä reached an agreement to acquire Guidance Marine Limited, a privately owned company with offices in the UK, Singapore and the USA. The acquisition enhances Wärtsilä's capabilities in the area of situational awareness and near-field measurement, both essential for more intelligent vessel navigation. Guidance Marine employs more than 50 people worldwide.

In December 2017, Wärtsilä announced the opening of CSSC Wartsila Electrical & Automation Co Ltd (CWE&A), a joint venture between Wärtsilä and China State Shipbuilding Corporation (CSSC) that will focus on the growing Chinese electrical & automation market.

Also in December, Wärtsilä strengthened its service portfolio by acquiring Trident B.V., a Netherland based company specialised in providing underwater ship maintenance, inspection, and repair services. The acquisition supports Wärtsilä's goal to become the first operator with a global underwater services footprint. The acquisition is estimated to be closed in January 2018. Trident employs approximately 30 people.

Employment

Information on employees and other workers in 2017 (GRI 102-8, GRI 401-1)

In addition to direct employment, Wärtsilä employed also indirectly an external workforce totalling 3 234 man-years in subcontracting at its factories and units. The units located in Finland had a total personnel of 3 056 employees.

All in all, 1 634 employees left and 2 104 joined Wärtsilä globally during 2017 for different reasons. Wärtsilä had 18 065 employees at the end of 2017.

Personnel	2017	2016	2015	2014	2013
Number of employees at the end of the year	18 065	18 011	18 856	17 717	18 663
Personnel by business					
Services	10 624	10 567	10 592	10 692	10 785
Marine Solutions	5 845	6 074	6 847	5 603	3 612
Energy Solutions	1 038	903	959	978	1 053
PowerTech	*	*	*	*	2 449
Other	559	467	459	444	764
Personnel by market area					
Europe	10 463	10 399	10 893	9 633	10 507
Asia	4 890	4 992	5 297	5 477	5 628
Americas	1 960	1 919	1 917	1 840	1 876
Africa	665	612	656	676	563
Other	88	89	92	91	89
Average age of employees	41.5	41.0	41.0	40.2	39.7
Permanent employees (%)	92	89	89	88	88
Temporary employees (%)	8	11	11	12	12
Full-time employees (%)	98	98	98	98	97
Part-time employees (%)	2	2	2	2	3
Employee turnover (resigned) (%)	5.3	5.3	5.2	6.2	7.7
Net employment creation	-213	-840	-755	-283	-477

* PowerTech was merged into Marine Solutions in 2014

Number of employees by employment contract and gender in 2017	Permanent	Temporary
Total	16 566	1 498
Male	13 996	1 243
Female	2 570	255

Number of employees by employment contract and region in 2017	Permanent	Temporary
Europe	10 100	363
Asia	4 020	872
America	1 919	40
Other	566	185

Permanent employees by employment contract type and gender in 2017	Full-time	Part-time
Total	16 250	320
Male	13 886	216
Female	2 360	104

New employee hires in 2017	Employees	Rate (%)
Total	2 104	11.6
Gender		
Male	1 688	11.1
Female	416	14.4
Age group		
< 30 years	798	31.7
30-50	1 120	9.9
> 50 years	186	4.4
Market area		
Europe	1 070	10.2
Asia	569	11.6
Americas	346	17.7
Other	118	15.7

Employee turnover (resigned) in 2017	Employees	Rate (%)
Total	879	5.3
Gender		
Male	719	5.1
Female	160	6.2
Age group		
< 30 years	163	10.7
30-50	521	5.0
> 50 years	195	4.8
Market area		
Europe	484	4.8
Asia	254	6.3
Americas	106	5.5
Other	35	6.2

Benefits provided to full-time employees that are not provided to temporary or part-time employees (GRI 401-2)

In general, temporary and part time employees are offered the same benefits as permanent employees. In some countries, eligibility is linked to the number of months or years of service – such differences being typically based on collective agreements according to local legislation.

Labour / management relations

Minimum notice periods regarding operational changes (GRI 402-1)

Wärtsilä way of working concerning minimum notice periods is described in the Employee Practices section.

Occupational health and safety

Workers representation in formal joint management–worker health and safety committees (GRI 403-1)

Wärtsilä companies apply occupational health and safety programmes as required by local legislation. These are normally developed by occupational health and safety committees consisting of representatives from both management and personnel. Altogether 78% of Wärtsilä companies have an occupational health and safety committee covering in total 92% of Wärtsilä's employees.

Type of injury and rates of injuries, occupational diseases, lost days and absenteeism, and total number of work-related fatalities (GRI 403-2)

The positive trend in reducing lost time injuries has continued, with a lost time injury frequency 4% below that of the previous year. There has been a continual reduction in the frequency of lost time injuries since 2008.

However, Wärtsilä regrets to report a contractor fatality at a power plant construction site in India. A contractor's employee was walking ahead of a mobile crane holding a transported steel frame when he fell and was run over by the crane. The employee lost his life in this accident.

Injuries	2017	2016	2015	2014	2013
Total number of injuries	446	439	461	510	730
Number of lost time injuries resulting in at least 1 day absence, total	138	147	157	168	199
Number of lost time injuries – work-related	88	95	104	130	162
Number of lost time injuries – commuting	50	52	53	38	37
Lost time injuries / million working hours	2.5	2.6	2.8	3.5	4.4
Absence rate					
Absence due to illness (% of total working hours)	2.0	2.2	1.9	2.0	2.1
Absence due to lost time injury (% of total working hours)	0.1	0.1	0.1	0.1	0.1
Absence due to occupational diseases (% of total working hours)	0.0	0.0	0.0	0.0	0.0
Fatalities					
Number of fatalities, total	1	1	1	5	1
Employees	0	0	1	3	1
Contractors	1	1	0	2	0

Workers with high incidence or high risk of diseases related to their occupation (GRI 403-3)

Wärtsilä employees constantly work close to running engines while conducting overhaul or testing activities, which exposes them to high levels of noise. Wärtsilä has occupational safety and health programmes in place to prevent hearing loss, including providing hearing protectors to those employees at risk of hearing loss or impairment. In 2017, there were in total 15 cases of occupational disease diagnosed, which is equivalent to 0.4 cases / million worked hours.

Training and education

Average hours of training per year per employee (GRI 404-1)

Wärtsilä's average number of training days in 2017 for male employees was 2.3 and for female employees 2.0.

Training days/employee	2017	2016	2015	2014	2013
All employees	2.2	3.0	3.0	4.2	4.1
Managers and superiors	3.5	3.7	3.5	5.1	4.6
Other white-collar employees	3.0	2.9	2.9	3.5	4.1
Blue-collar employees	2.0	3.0	3.1	4.4	3.6

Programs for upgrading employee skills and transition assistance programs (GRI 404-2)

Wärtsilä programmes for skills management is described in the People Management section. Wärtsilä offers a wide variety of internal training and learning opportunities for its employees, covering more than 20 training categories. These include topics such as engine technology, health and safety, language and culture, project management, environment, security, and leadership.

Percentage of employees receiving regular performance and career development reviews (GRI 404-3)

Development discussions held annually	2017	2016	2015	2014	2013
Coverage %	96	96	92	92	91

Diversity and Equal opportunity

Diversity of governance bodies and employees (GRI 405-1)

A diverse workforce generates higher profits, better complex problem-solving skills, and access to a larger talent pool. Wärtsilä's Diversity Initiative began in 2012 and is aimed at driving an inclusive corporate culture at all levels to meet both global and local requirements. By investing in diversity and supporting employees of varied gender, age, personality, and educational background, Wärtsilä becomes an even more attractive employer and a more valued business partner for its customers.

Gender diversity	2017	2016	2015	2014	2013
Male/female ratio (%)	84/16	84/16	85/15	86/14	85/15
Executive positions globally: male/female ratio (%)	89/11	89/11	89/11	90/10	90/10
Regional diversity					
Number of nationalities	136	134	131	122	120

Number of employees per age group in 2017	Employees	Ratio (%)
< 30 years	2 517	13.90
30-50	11 340	63
> 50 years	4 209	23

Percentage of members of Board of Management (BoM) and Board of Directors (BoD) per age group in 2017	BoM (%)	BoD (%)
< 30 years	0	0
30-50	22	25
> 50 years	78	75

Percentage of members of Board of Management (BoM) and Board of Directors (BoD) per gender in 2017	BoM (%)	BoD (%)
Female	11	25
Male	89	75

Customer satisfaction

Results of surveys measuring customer satisfaction (GRI 102-43)

In order to put the needs of customers always first, Wärtsilä carefully listens and acts upon customer feedback, at both operative and management levels. Wärtsilä places great emphasis on earning long-term customer trust through keeping its promises. While challenges may arise at any time in this business, relationships are strengthened by focusing on customer satisfaction and loyalty.

Customer feedback on project deliveries and the operation of their installations, is welcomed. To know what works and where to improve, as well as understanding the customers' operational environments, is critical in developing the company's products and services. To ensure customer satisfaction, their feedback is systematically reviewed and the needed actions are taken. In addition, Wärtsilä collects feedback during different events, activities, and interactions with its customers.

Customer satisfaction	2017	2016	2015
Marine Solutions	76%	76%	75%
Services	87%	90%	89%
Energy Solutions	95%	97%	95%
Sample	4 875	4 899	4 312

Customer satisfaction percentage is based on one question: Are you satisfied with Wärtsilä overall performance? Answering options: Satisfied, Neutral or Dissatisfied. Percentage shows Satisfied as part of total answered.

Compliance

Wärtsilä is committed to carrying out its business in a sustainable way. In order to promote the long-term interests of Wärtsilä and its stakeholders, the company strives to maintain the highest legal and ethical standards in all its business practices. All business and other activities of Wärtsilä shall be carried out strictly in compliance with all applicable laws and under the principles of good corporate citizenship in each country where such activities take place. This requires all employees to act responsibly and with integrity and honesty.

Wärtsilä is committed to ensuring compliance with the Wärtsilä Code of Conduct in all of its business operations globally and has, therefore, established a Group policy for reporting misconduct incidents and suspected Code of Conduct violations. Wärtsilä employees are encouraged to voice their concerns as to potential violations of the Code and its underlying policies and instructions. The reported misconduct cases are investigated either locally or centrally, as appropriate. The primary way for reporting suspected misconduct incidents is via the line management. However, employees also have alternative reporting routes, including an externally hosted whistleblowing channel, reporting directly to the compliance function, or by informing legal affairs. Should a suspected violation involve the top management of Wärtsilä Corporation, or where the suspected case is believed to be

significant, the Audit Committee of the Board of Directors of Wärtsilä Corporation may be contacted directly. An employee who reports a potential Code of Conduct violation in good faith shall suffer no harassment, retaliation, or adverse employment consequences. Finally, Wärtsilä employees are instructed to seek advice on ethical and lawful behaviour and on matters of integrity from Wärtsilä legal counsels or from the compliance function.

Environmental compliance

Wärtsilä companies comply with all local environmental legislation. The operations of Wärtsilä's manufacturing companies require a valid environmental permit, the terms of which are generally met. Incidents of non-compliance are described in the following chapters.

Significant spills (GRI 306-3) and complaints

The number of disturbances, complaints, and incidents of non-compliance are presented in the table below. Reported disturbances typically cover incidents in which the Wärtsilä company concerned has been obliged to report the disturbance to the authorities.

The main environmental disturbances that occurred in Wärtsilä's business locations in 2017 were 6 minor fuel or oily water spills. These disturbances were investigated and the appropriate corrective actions to minimise the impact on the environment were taken in each case. Wärtsilä UK Ltd. received a complaint made by a resident of the neighbouring property related to light pollution. The direction of the lighting was promptly adjusted to the satisfaction of the neighbouring resident.

Non-compliance with environmental laws and regulations (GRI 307-1)

Wärtsilä Singapore Pte Ltd. Received a warning from the National Environment Authority for a non-compliance related to mosquito breeding. The authorities were satisfied after corrective actions had been taken.

Disturbances, complaints, and non-compliances	2017	2016	2015	2014	2013
Environmental					
Disturbances	6	12	3	11	5
Non-compliances	1	0	3	1	2
Complaints	1	2	2	1	1
Social					
Non-compliances	1	4	4	1	4
Fines of non-compliance cases (EUR)	22 575	37 860	30 111	9 824	9 787

Incidents of discrimination and corrective actions taken, and non-compliance with laws and regulations in the social and economic area (GRI 103-2, GRI 406-1, GRI 419-1)

Wärtsilä supports and respects basic human values as outlined in the UN's Universal Declaration of Human Rights. Wärtsilä also supports the Ten Principles of the UN Global Compact, of which six principles are related to Human and Labour rights.

Wärtsilä's employees represent 136 nationalities. The company supports fair and equal treatment of all its employees. Wärtsilä supports the work-related rights defined by the International Labour Organization (ILO), and works, therefore, to ensure that there is freedom of association and the right to collective bargaining in the company. In those countries where local legislation does not recognise these rights, Wärtsilä endeavours to give employees other channels for expressing their opinions.

Wärtsilä does not accept the use of forced labour or child labour in any form. Wärtsilä is unaware of any cases of human rights being breached, discrimination, infringements of rights at work, or the use of forced or child labour. During the reporting period the following misconducts were realised:

Wärtsilä Korea Ltd. was charged a penalty fee of EUR 21 500 for not fulfilling its legal obligation to hire six disabled persons. The company has mainly hired blue collar employees, which limits the suitable job offerings to disabled persons.

Non-compliance cases presented in previous reports

Wärtsilä Brasil Ltda's appeals in 2016 against three claims related to non-compliances on found by the Ministry of Labour in its Niterói/RJ facility were rejected, and the company received a fine of EUR 1 075.

Communication and training about anti-corruption policies and procedures, and Confirmed incidents of corruption and actions taken (GRI 205-2, 205-3)

During the review period, no instances of corruption or bribery were identified. Wärtsilä Anti-Corruption Policy is provided to sales intermediaries such as agents. Wärtsilä has arranged specifically tailored trainings to agents and other sales intermediaries. Wärtsilä's Anti-Corruption Policy is available for suppliers and any person or organization upon request.

Political contributions (GRI 415-1)

During 2017, Wärtsilä did not make any contributions to political parties.

Legal actions for anti-competitive behavior, anti-trust, and monopoly practices (GRI 206-1)

Wärtsilä arranged, as it has earlier, a number of competition law training seminars in 2017 for relevant personnel in order to further promote their knowledge of competition laws, and thus ascertain full compliance with such laws.

Incidents of non-compliance concerning health and safety impacts of products and services, product and service information, marketing communications and customer privacy and data (GRI 416-2, GRI 417-2, GRI 417-3, GRI 418-1, GRI 419-1)

During the review period, no instances of non-compliance related to product health and safety or information liability, or customer privacy were identified.

Report profile

Data collection

The data on the products' environmental performance is based on measured test results. Performance data on the environmental and social aspects of sustainability has been collected from the Wäartsilä companies using a detailed questionnaire. Economic performance data is based mainly on audited financial accounts.

The sustainability data is collected and reported according to Wäartsilä's specific internal reporting guidelines that include all the definitions and instructions necessary for this purpose. Environmental expenditure and investments are reported applying the Eurostat instructions.

Each company has a nominated individual responsible for collection and consolidation of the data, and for its quality and reliability. The management of each company approves the data before it is consolidated at the Group level. The companies report their sustainability data using Wäartsilä's sustainability reporting system. The reported data is checked at both local and Group levels before its consolidation. The content of this Sustainability Report was reviewed and approved by Wäartsilä's Board of Management.

Report assurance

PricewaterhouseCoopers Oy has independently assessed the report against GRI principles for defining content and quality. As part of the assurance process, PricewaterhouseCoopers assesses local level data management and processes, evaluates the relevance and reliability of the data reported to headquarters, and assesses whether the reporting guidelines of Wäartsilä are well understood and applied. This is achieved through conducting site visits and videoconferencing. Site visit was carried out in Vaasa, Finland. Wäartsilä Brasil, Wäartsilä Japan, Wäartsilä Norway, Wäartsilä Singapore and Wäartsilä UK were assessed through videoconferencing.

Additional sources of information

Wäartsilä has previously published the following reports:

Wäartsilä Environmental Report 2000
Wäartsilä Sustainability Report 2002
Wäartsilä Sustainability Report 2004
Wäartsilä Sustainability Report 2005
Wäartsilä Annual Report 2006
Wäartsilä Annual Report 2007
Wäartsilä Annual Report 2008
Wäartsilä Annual Report 2009
Wäartsilä Annual Report 2010
Wäartsilä Annual Report 2011
Wäartsilä Annual Report 2012
Wäartsilä Annual Report 2013
Wäartsilä Annual Report 2014
Wäartsilä Annual Report 2015
Wäartsilä Annual Report 2016

These reports and their sustainability data are available on Wäartsilä's website: www.wartsila.com.

Sustainability Report Project Team

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Harri Mäkelä Sustainability Officer

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Natalia Valtasaari Director, Investor & Media Relations

Materiality assessment

Identified material topics and boundaries

Entities included in the organization's consolidated financial statements (GRI 102 - 45)

The entities included in Wärtsilä's Consolidated Financial Statements are listed in the Notes to the Consolidated Financial Statements 32. Subsidiaries.

All the Group companies are included in Wärtsilä's Sustainability reporting. The report covers Wärtsilä's businesses. At the company level, the report includes the parent company and its subsidiaries as well as its manufacturing, service and sales units. The report excludes Wärtsilä's associated companies, joint ventures, and supply chain companies.

Process for defining report content and aspect boundaries (GRI 102 - 46)

Wärtsilä's Sustainability Reporting 2017 is prepared according to the GRI (Global Reporting Initiative) Standards and the Reporting Principles for Defining report content. This report has been prepared in accordance with the GRI Standards: Comprehensive option. This means that our reporting covers all the General Disclosures of the GRI Standards framework and all the sustainability topics we have identified as material in our operations.

In 2017, Wärtsilä updated the assessment of material sustainability topics. The process included an assessment of economic, environmental, and social topics from the stakeholders' point of view and as an impact to Wärtsilä's business. Stakeholder views were collected through a questionnaire answered by 88 key stakeholder contacts in various Wärtsilä units and functions worldwide. The aim of the stakeholder questionnaire was to evaluate how important different sustainability topics are for assessments and decision-making of Wärtsilä's stakeholders. Sustainability topics for the stakeholder evaluation were identified based on Wärtsilä's previous experience on material sustainability topics, industry peer review, and analysis of significant economic, environmental and social impacts in Wärtsilä's value chain. Focus on stakeholder assessment was in investors and financiers, major customers, personnel, local societies, and media.

The significance of identified topics was then analysed as a current or potential business impact on Wärtsilä. The business implications of identified sustainability topics were evaluated based on direct financial impacts as well as risks and opportunities. In addition the level of internal policies or practices were used as an indication of potential business impact.

As a result of the materiality assessment, the following GRI topics were identified as material for Wärtsilä:

- Emissions
- Environmental Compliance
- Economic Performance
- Training and education
- Occupational health and safety

In addition to the identified material aspects Wärtsilä discloses sustainability data on several other areas, because they are frequently asked by Wärtsilä's stakeholders or they are considered important on the basis of continuity of sustainability reporting. These non-material topics have not been considered as content for defining the application level of GRI Standards.

Topic boundaries for the identified material topics were then evaluated in reflection to the sustainability context that is based on the significance of their economic, environmental, and social impacts in our value chain. A more detailed description of the topic boundaries and completeness of data collection for the identified material topics can be found in the GRI 103-1-b and GRI 103-1-c, Topic boundary within the organisation and Topic boundary outside the organisation.

Material topics (GRI 102-47)

From a sustainability impact point of view, product-related environmental issues are the most significant for Wärtsilä. The use of Wärtsilä’s products has an environmental impact both locally and globally. Other dimensions of sustainability mainly have a local impact.

Sustainability impact	Local	Global
Economic	•	
Environmental		
• Product related	•	•
• Operational	•	
Social	•	

The following GRI topics have been identified as material for Wärtsilä’s sustainability reporting:

Category	Topics	Identified material topic for Wärtsilä, reported in accordance with GRI Standards	Other topics included in Wärtsilä Sustainability Reporting	Excluded from Wärtsilä Sustainability Reporting
Economic	Economic performance	•		
	Market presence		•	
	Indirect economic impacts			•
	Procurement practices			•
	Anti-corruption		•	
	Anti-competitive behaviour		•	
Environmental	Materials		•	
	Energy		•	
	Water		•	
	Biodiversity			•

Social

Emissions	•		
Effluents and waste			•
Environmental Compliance	•		
Supplier Environmental assessment			•
Employment			•
Labour/management relations			•
Occupational health and safety	•		
Training and education	•		
Diversity and equal opportunity			•
Non-discrimination			•
Freedom of association			•
Child Labour			•
Forced or compulsory labour			•
Security practices			•
Rights of indigenous peoples			•
Human rights assessment			•
Local communities			•
Supplier social assessment			
Public policy			•
Customer health and safety			•
Marketing and labelling			•
Customer privacy			•

Socioeconomic compliance			
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Wärtsilä's sustainability reporting provides a full disclosure of the management approach, relevant general disclosures and material topic-specific disclosures defined by the GRI Standards.

Topic boundary within the organisation (103-1-b and 103-1-c)

The topic boundary for the material topics is all Wärtsilä companies. The economic performance data covers all Wärtsilä companies. The data on environmental and social performance covers all Wärtsilä companies except the following:

- Wärtsilä Operations Guyana Inc.
- Wärtsilä Yuchai Engine Co. Ltd.
- Wärtsilä Egypt Power S.A.E
- Wärtsilä Tanzania Ltd.
- Wärtsilä Muscat LLC
- American Hydro Corp.
- Puregas Solutions GmbH
- Puregas Solutions Ltd
- Puregas Solutions AB
- Guidance Marine Ltd
- Guidance Marine Pte Ltd
- Guidance Marine LLC
- Greensmith Energy Management Systems Inc.

These companies will be included in Wärtsilä's sustainable development reporting in the forthcoming years. Wärtsilä's Sustainability Reporting is an integrated part of its annual reporting, and therefore Wärtsilä publishes its sustainability data annually.

Coverage of operational data

Operational data, % of Wärtsilä companies

	2017	2016	2015	2014	2013
Economic	100	100	100	100	100
Environmental	86	93	83	94	93
Social	100	100	100	100	93

Operational data, % of personnel

	2017	2016	2015	2014	2013
Economic	100	100	100	100	100
Environmental	96	98	91	98	99
Social	100	100	100	100	99

Operational data, % of product manufacturing

	2017	2016	2015	2014	2013
Economic	100	100	100	100	100
Environmental	100	100	95	100	99
Social	100	100	100	99	93

Topic boundary outside the organisation (GRI 103-1-c)

Wärtsilä's Sustainability Report does not cover performance data collected outside the Group companies.

Explanation of the effect of any re-statements of information provided in earlier reports (GRI 102-48)

There are no major restatements of information provided in previous reports.

Significant changes from previous reporting periods (GRI 102-49)

The list of material topics changed from previous reporting periods so, that in accordance with the materiality analysis in 2017, Anti-corruption is no longer listed among the material topics. There are no significant changes from previous reporting periods in the reporting topic boundaries. Historical data covers all entities that were part of the Group at the end of each reporting period.

Reporting principles

Economic performance data

The economic performance data is based on audited financial accounting and covers all Wärtsilä subsidiaries unless otherwise stated.

Donations: The data of this indicator included 15 major Wärtsilä subsidiaries and the parent company in 2017.

Subsidies: The data of this indicator included all Wärtsilä subsidiaries and the parent company in 2017.

The social costs for employees contribute to the funding of pensions, unemployment, and other social benefits that provide security and improve the quality of life for the company's employees and their families.

Senior management includes all employees with the highest job grade levels 12-15. At the end of 2017 this covered 94 employees.

Environmental performance data

Materials include all the major material flows used in the production processes globally. The most material consuming product categories include engines, propellers, and propulsion systems.

Total energy consumption includes both direct and indirect energy usage. The direct energy usage includes the fuels used by Wärtsilä subsidiaries. Lower heating values (LHV) are used to calculate the energy consumption of fuels in joules. LHVs are based on information supplied by vendors or results of fuel analysis for engine testing and R&D purposes, and for other fuel consumption the source is the DEFRA (the UK government Department for Environment, Food and Rural Affairs). The indirect energy usage includes the purchased electricity and heat. Since the efficiency of purchased electricity and heat generation is not known, the energy conversion is done directly from the purchased values.

Fuel consumption data is based on either invoices or measured values.

Heat and electricity data is based on either invoices or measured values.

Energy intensity describes the ratio of total internal energy consumption divided by the total net sales of the subsidiaries included in the data gathering in a particular year (MJ/ euro).

GHG emissions intensity describes the ratio of total greenhouse gas emissions (Scope 1, 2 and 3) divided by the total net sales of the subsidiaries included in the data gathering in a particular year (gCO₂/ euro).

Reduction of GHG emissions data is collected on a site level, based on permanent GHG emissions reduction measures, and either calculated or estimated (Scope 1 and 2).

Reduction of energy consumption data is collected on a site level, based on permanent energy saving actions, and either calculated or estimated.

Water consumption: The reported figures are based on either measured values or invoices. The cooling water usage might also be calculated from the heat load in some units.

Recycled water: The reported amount is the total measured recycled water used in Wärtsilä Italia S.p.A. Their water treatment plant provides reusable water for manufacturing processes.

Water discharge: The reported figures are based on either measured values or invoices. The cooling water discharge might also be calculated from the heat load in some units.

Emissions: The reported figures are mainly based on measured values, based on which specific emission factors are determined. The specific emission factors are determined for various fuels and engine types. The emissions of the heating boilers are either measured or calculated. The indirect CO₂ emissions (scope 2) are calculated by using the emission factors from the DEFRA (the UK government Department for Environment, Food and Rural Affairs). The indirect CO₂ emissions (scope 3) of energy consumption are calculated by using the emission factors from the DEFRA. The indirect CO₂ emissions (scope 3) of material consumption are calculated by using the emission factors from thinkstep's GaBi database. The CO₂ emissions of air travel (Scope 3) are based on calculations by Wärtsilä's travel agency and are based on DEFRA defined factors. The other-than-GHG emissions of vehicles are calculated by using the VTT (Technical Research Centre of Finland) Lipasto database emission factors. GWP factor used for converting methane emissions to CO₂-equivalent is 25. Only CO₂ and methane are considered for the CO₂ emissions.

Waste: Information on waste disposal methods normally comes from waste disposal contractor.

Environmental disturbances: As such are considered major incidents, which generally require communication to local authorities.

Social performance data

Total number of injuries: The reported figures include all types of reported work-related injuries, including first-aid cases, as well as commuting injuries and possible fatalities.

Lost time injuries: The reported figures include all reported work-related injuries resulting in absence from work of at least one scheduled work day, lost day counting from the first day after the injury.

LTI frequency is expressed as reported lost time injuries and possible fatalities per million working hours. The working hours are actual paid working hours. The lost time injury rate does not include commuting injuries.

Net employment creation is calculated by deducting the number of permanent employees having left the company for any reason from the amount of newly hired permanent employees during the reporting period.

Employee turnover is calculated from permanent employees. The number of resigned permanent employees is divided by the number of permanent employees at the end of the reporting period.

Employees and other workforce: The data on Wärtsilä employees is mainly from global SAP HR database. Less than 3% of employees, the amount varying between indicators, have not had all their employment details in the global HR processes, and thus their qualities have been assumed to be the same as on average among the rest of the global employees, i.e. their gender, employment and contract type. The new-hires and resigned employee numbers do not include any such assumptions of employees having joined but still lacking the formal record of that activity.

Independent Assurance Report

Independent Practitioner's Assurance Report

To the Management of Wärtsilä Corporation

We have been engaged by the Management of Wärtsilä Corporation (hereinafter also the Company) to perform a limited assurance engagement on selected sustainability disclosures for the reporting period 1 January to 31 December 2017, disclosed in the "Sustainability" and "Stories" sections (hereinafter Sustainability Information) of Wärtsilä Corporation's Annual Report 2017. In terms of the Company's GRI Standards reporting and GRI Content Index (in Wärtsilä Corporation's Annual Report 2017 "GRI and UNGC index") the scope of the assurance has covered economic, social and environmental sustainability disclosures listed within the Topic-specific Disclosures as well as General Disclosures 102-8 and 102-41. The assured information in the "Stories" - section has been indicated with "Sustainability Assured".

Management's responsibility

The Management of Wärtsilä Corporation is responsible for preparing the Sustainability Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Sustainability Reporting Standards of the Global Reporting Initiative. The Management of Wärtsilä Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of the Sustainability Information that is free from material misstatement, whether due to fraud or error.

Practitioner's independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Sustainability Information based on the procedures we have performed and the evidence we have obtained. Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Wärtsilä Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That standard requires that we plan and perform the engagement to obtain limited assurance about whether the Sustainability Information is free from material misstatement.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Sustainability Information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Sustainability Information.

Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Visiting the Company's Head Office as well as one site in Finland.
- Conducting five video interviews with sites in Brazil, Japan, UK, Norway and Singapore.

- Interviewing employees responsible for collecting and reporting the Sustainability Information at the Group level and at the site level where our site visits and video interviews were conducted.
- Assessing how Group employees apply the Company's reporting instructions and procedures.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Wärtsilä Corporation's Sustainability Information for the reporting period ended 31 December 2017 is not properly prepared, in all material respects, in accordance with the Reporting criteria.

When reading our assurance report, the inherent limitations to the accuracy and completeness of sustainability information should be taken into consideration.

Helsinki, 12 February 2018

PricewaterhouseCoopers Oy

Sirpa Juutinen

Partner

Sustainability & Climate Change

GRI and UNGC index

General Disclosures

GRI 102: General Disclosures 2016

GRI Standard / Disclosure	Links	Remarks	UNGC
Organizational profile			
102-1 Name of the Organization	Wärtsilä in brief		•
102-2 Activities, brands, products, and services	Wärtsilä in brief Energy solutions Marine Solutions Services		•
102-3 Location of headquarters	Shares and shareholders	Helsinki, Finland	•
102-4 Location of operations	Wärtsilä in brief	www.wartsila.com	•
102-5 Ownership and legal form	Shares and shareholders		•
102-6 Markets served	Wärtsilä in brief		•
102-7 Scale of the organization	Wärtsilä in brief Shareholders		•
102-8 Information on employees and other workers	Social		•
102-9 Supply chain	Supply chain management		•
102-10 Significant changes to the organization and its supply chain	Social		•
102-11 Precautionary Principle or approach	Product design principles Risks and risk management Research and development		•

102-12 External initiatives	Stakeholder relations		
102-13 Membership of associations	Stakeholder relations		
Strategy			
102-14 Statement from senior decision-maker	CEO review		•
	Risks and risk management		
	Corporate strategy		
	Energy		
	Solutions and sustainability		
102-15 Key impacts, risks, and opportunities	Marine	See also business strategy sections	•
	Solutions and sustainability		
	Services and sustainability		
	Innovating for sustainability		
Ethics and integrity			
102-16 Values, principles, standards, and norms of behavior	Corporate strategy		•
	Guiding principles		
102-17 Mechanisms for advice and concerns about ethics	Guiding principles		•
	Compliance		
Governance			
102-18 Governance structure	Corporate governance		•
	Board of Directors		
102-19 Delegating authority	Corporate governance		•
	Board of Directors		
102-20 Executive-level responsibility for economic, environmental, and social topics	Board of Management		•
102-21 Consulting stakeholders on economic, environmental, and social topics	Annual general meeting		•
	Internal control		

102-22 Composition of the highest governance body and its committees	<u>Board of Directors</u>		•
102-23 Chair of the highest governance body	<u>Board of Directors</u>		•
102-24 Nominating and selecting the highest governance body	<u>Annual general meeting</u> <u>Board of Directors</u>	The nomination committee proposes new board members. The committee consults major shareholders, and in their proposals they take into account the specific needs of the Board, including sustainability competencies and diversity.	•
102-25 Conflicts of interest	<u>Board of Directors</u> <u>Insider management</u> <u>Shareholders</u>		•
102-26 Role of highest governance body in setting purpose, values, and strategy	<u>Board of Directors</u> <u>Internal control</u>		•
102-27 Collective knowledge of highest governance body	<u>Internal control</u> <u>Board of Management</u>		•
102-28 Evaluating the highest governance body's performance	<u>Board of Directors</u>	The evaluation is of general nature, but also includes sustainability issues if such concerns arise. The evaluation partly affects the membership changes within the Board.	•
102-29 Identifying and managing economic, environmental, and social impacts	<u>Board of Directors</u> <u>Risks and risk management</u>		•
102-30 Effectiveness of risk management processes	<u>Board of Directors</u>		•
102-31 Review of economic, environmental, and social topics	<u>Board of Directors</u> <u>Board committees</u> <u>Internal control</u>	9 meetings in 2017	•
102-32 Highest governance body's role in sustainability reporting	<u>Report profile</u>		•
102-33 Communicating critical concerns	<u>Internal control</u>		•
102-34 Nature and total number of critical concerns		This information is not publicly disclosed	•

102-35 Remuneration policies	Salary and remuneration report 2017		•
102-36 Process for determining remuneration	Board committees Employee practices		•
102-37 Stakeholders' involvement in remuneration	Salary and remuneration report 2017		•
102-38 Annual total compensation ratio		This information is not publicly disclosed	•
102-39 Percentage increase in annual total compensation ratio		This information is not publicly disclosed	•
Stakeholder engagement			
102-40 List of stakeholder groups	Stakeholder relations		•
102-41 Collective bargaining agreements		58% of Wärtsilä employees were covered by collective bargaining agreements in 2017	•
102-42 Identifying and selecting stakeholders	Stakeholder relations		•
102-43 Approach to stakeholder engagement	Stakeholder relations Customer satisfaction		•
102-44 Key topics and concerns raised	Stakeholder relations		•
Reporting practice			
102-45 Entities included in the consolidated financial statements	Materiality assessment		
102-46 Defining report content and topic Boundaries	Materiality assessment		
102-47 List of material topics	Materiality assessment		
102-48 Restatements of information	Materiality assessment		
102-49 Changes in reporting	Materiality assessment		
102-50 Reporting period	Report profile		•
102-51 Date of most recent report	Report profile		•
102-52 Reporting cycle	Report profile		•

102-53 Contact point for questions regarding the report	Report profile		•
102-54 Claims of reporting in accordance with the GRI Standards	Materiality assessment		•
102-56 External assurance	Independent assurance report		•

GRI 103: Management Approach 2016

GRI Standard / Disclosure	Links	Remarks	UNGC
103-1 Explanation of the material topic and its Boundary	Materiality assessment		•
103-2 The management approach and its components	Sustainability at Wärtsilä Sustainability management	Disclosure on management approach for all material topics are covered in the Sustainability management-section. Please see www.wartsila.com	•
103-3 Evaluation of the management approach	Sustainability management Sustainability targets Sustainability data Risks and risk management		•

Topic-specific standards

GRI 200 Economic Standard Series

GRI Standard / Disclosure	Links	Omissions	UNGC	Material topic disclosures
GRI 201: Economic Performance 2016				
201-1 Direct economic value generated and distributed	Economic performance			•
201-2 Financial implications and other risks and opportunities due to climate change	Economic performance	The costs of actions taken to manage the risks or opportunities is not		•

201-3 Defined benefit plan obligations and other retirement plans	<u>Economic performance</u>	applicable, as it is not possible to calculate specifically Details in points a – e will be studied and analysed in 2018			•
201-4 Financial assistance received from government	<u>Economic performance</u>	Divisions by country will be studied and analysed in 2018			•
GRI 202: Market Presence 2016					
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	<u>Market presence</u>	Only reported the Management Approach disclosure			•
202-2 Proportion of senior management hired from the local community	<u>Market presence</u>				•
GRI 205: Anti-corruption 2016					
205-1 Operations assessed for risks related to corruption	<u>Risks and risk management</u>	Coverage of risk management processes is 100% of our operations			
205-2 Communication and training about anti-corruption policies and procedures	<u>Responsible business conduct</u>	Employees' classification by employee category and region, as well as by business partners, will be studied and analysed in 2018.			
205-3 Confirmed incidents of corruption and actions taken	<u>Compliance</u>				
GRI 206: Anti-competitive behaviour 2016					
206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	<u>Compliance</u>				

GRI 300 Environmental Standard Series

GRI Standard / Disclosure	Links	Omissions	UNGC	Material topic disclosures
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GRI 303: Materials 2016				
301-1 Materials used by weight or volume	<u>Materials</u>	The recycled material input of metals varies between 20% and 95%, depending on the type of furnace and foundry used by the metal recycling companies in the supply chain, of which there are too many to state an exact percentage.	•	
301-2 Recycled input materials used	<u>Materials</u>		•	
GRI 301: Energy 2016				
302-1 Energy consumption within the organization	<u>Energy</u>		•	
302-3 Energy intensity	<u>Energy</u>		•	
302-4 Reduction of energy consumption	<u>Energy</u>		•	
GRI 303: Water 2016				
303-1 Water withdrawal by source	<u>Water</u>		•	
303-2 Water sources significantly affected by withdrawal of water	<u>Water</u>			
303-3 Water recycled and reused	<u>Water</u>			
GRI 305: Emissions 2016				
305-1 Direct (Scope 1) GHG emissions	<u>Emissions</u>	No data available for market-based scope 2 emissions, will be reported in 2018 It is not possible to state the exact amount of GHG emission reductions	•	•
305-2 Energy indirect (Scope 2) GHG emissions	<u>Emissions</u>		•	•
305-3 Other indirect (Scope 3) GHG emissions	<u>Emissions</u>		•	•
305-4 GHG emissions intensity	<u>Emissions</u>		•	•
305-5 Reduction of GHG emissions	<u>Emissions</u>		•	•

305-6 Emissions of ozone-depleting substances (ODS)	<u>Emissions</u>	achieved from the reduced travelling, because such a figure would be purely hypothetical. Not applicable, Wärtsilä does not produce, import or export ODS.	•	•
305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	<u>Emissions</u>		•	•
GRI 306: Effluents and Waste 2016				
306-1 Water discharge by quality and destination	<u>Effluents and waste</u>		•	
306-2 Waste by type and disposal method	<u>Effluents and waste</u>		•	
306-3 Significant spills	<u>Effluents and waste</u>		•	
GRI 307: Environmental Compliance 2016				
307-1 Non-compliance with environmental laws and regulations	<u>Compliance</u>		•	•

GRI 400 Social Standard Series

GRI Standard / Disclosure	Links	Omission	UNGC	Material topic disclosures
GRI 401: Employment 2016				
401-1 New employee hires and employee turnover	<u>Employment</u>		•	
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	<u>Employment</u>			
GRI 402: Labor/Management Relations 2016				
402-1 Minimum notice periods regarding operational changes	<u>Labour/ Management Relations</u>		•	
GRI 403: Occupational Health and Safety 2016				
403-1 Workers representation in formal joint management-worker health and safety committees	<u>Occupational health and safety</u>	Not possible to state the operating level due to local variations.	•	•

<p>403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities</p>	<p><u>Occupational health and safety</u></p>	<p>Injury rate (non-lost time), occupational disease rate, classifications by region and gender not reported. For contractors only fatalities reported. These will be studied and analysed in 2018.</p>	<p>•</p>	<p>•</p>
<p>403-3 Workers with high incidence or high risk of diseases related to their occupation</p>	<p><u>Occupational health and safety</u></p>	<p>In some cases local collective bargaining agreements also cover OHS issues.</p>	<p>•</p>	<p>•</p>
<p>403-4 Health and safety topics covered in formal agreements with trade unions</p>	<p><u>Responsible business conduct</u></p>	<p>Detailed listing of the topics not applicable, as it is not considered meaningful information.</p>	<p>•</p>	<p>•</p>
<p>GRI 404: Training and Education 2016</p>				
<p>404-1 Average hours of training per year per employee</p>	<p><u>Training and education</u></p>	<p>Various types of training can be offered in restructuring situations, however specific actions are defined case by case.</p>	<p>•</p>	<p>•</p>
<p>404-2 Programs for upgrading employee skills and transition assistance programs</p>	<p><u>Training and education</u></p>	<p>Employees' classification by gender and employee category will be studied and analysed in 2018.</p>	<p>•</p>	<p>•</p>
<p>404-3 Percentage of employees receiving regular performance and career development reviews</p>	<p><u>Training and education</u></p>	<p>Employees' classification by gender and employee category will be studied and analysed in 2018.</p>	<p>•</p>	<p>•</p>
<p>GRI 405: Diversity and Equal Opportunities 2016</p>				
<p>405-1 Diversity of governance bodies and employees</p>	<p><u>Employment Diversity and equal opportunity</u></p>	<p></p>	<p>•</p>	<p></p>
<p>GRI 406: Non-discrimination 2016</p>	<p></p>	<p></p>	<p>•</p>	<p></p>

406-1 Incidents of discrimination and corrective actions taken	<u>Compliance</u>				
GRI 415: Public Policy 2016					
415-1 Political contributions	<u>Compliance</u>				
GRI 416: Customer Health and Safety 2016					
416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	<u>Compliance</u>				
GRI 417: Marketing and Labeling 2016					
417-2 Incidents of non-compliance concerning product and service information and labeling	<u>Compliance</u>				
417-3 Incidents of non-compliance concerning marketing communications	<u>Compliance</u>				
GRI 418: Customer Privacy 2016					
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	<u>Compliance</u>				
GRI 419: Socioeconomic Compliance 2016					
419-1 Non-compliance with laws and regulations in the social and economic area	<u>Compliance</u>				

UN Sustainable Development Goals and Wäertsilä

On 1 January 2016, the Sustainable Development Goals (SDGs) set by the United Nations (UN) entered into force. The SDGs are intended to address a range of issues, from gender inequality to climate change, with the overall goal of ending global poverty.

The 17 goals and 169 targets, which are part of a wider 2030 Agenda for Sustainable Development, build on the Millennium Development Goals (MDGs) set in 2000. Compared to the MDGs, the SDGs are broader in scope and are applied to all countries and actors. The role of businesses is seen as being vital to the delivery of innovative changes that can have significant influence.

Sustainability forms the core of Wäertsilä's business operations, products and solutions. Several of the SDGs deal with issues to which Wäertsilä already contributes in a positive way. Wäertsilä continues to develop such means that make a difference to its customers and partners - and to the communities in which it operates.

Respect for people

Wäertsilä's efforts to promote people's health, safety and well-being covers employees, suppliers, customers and local communities. Its high standards in environmental, health and safety (EHS) matters are aimed at zero injuries among employees and contractors, and products and solutions that are safe and reliable to use. The company is also committed to continuous improvement in its environmental and social performance to avoid causing harm to the communities close to its operations.

Wärtsilä supports the work-related rights defined by the International Labour Organization, and upholds the freedom of association and the right to collective bargaining. Wärtsilä promotes gender equality and is committed to include women in all aspects of its business, and to fight against gender discrimination. The company's Diversity Initiative has been in place since 2012, fostering an inclusive corporate culture at all levels.

Wärtsilä contributes to sustainable economic growth by promoting global corporate citizenship, an inclusive corporate culture, and local employment. Continuous learning and self-development are encouraged by offering a wide range of competence development options at all levels of the organisation.



Sustainable and modern energy

Wärtsilä plays an important role in helping to meet the world's increasing demand for sustainable energy. The company's Smart Power Generation power plants provide energy efficiency as well as fuel and operational flexibility, thus enabling the effective integration of wind and solar power into the grid. In addition, Wärtsilä's strong capabilities in offering energy storage, utility-scale solar PV power plants and hybrid solutions, including the most advanced software for energy management, enables the share of renewables into the energy mix to be maximised. This provides sustainable, reliable, and affordable power, particularly in countries and regions with isolated or weak electricity grids. Wärtsilä's offering also includes Dry Flexicycle power plants, which can reduce water consumption almost entirely, making it possible to place power plants in water-stressed areas. Wärtsilä engages actively in an open dialogue with various stakeholders to provide expertise and support for enhancing clean energy technology and research on a global scale.



Clean marine technologies

Wärtsilä aims to deliver greater efficiency, a minimised environmental impact, and greater safety to the shipping industry, thereby enabling more sustainable, safe, and reliable operations for ship owners and operators around the world. By eliminating or reducing polluting discharges and emissions from its customers' processes, Wärtsilä ensures that they can continue to operate in environmentally sensitive areas around the world.

The company's range of environmentally sound products and solutions includes systems for ballast water management, wastewater treatment, oily water systems, exhaust gas cleaning, and dual-fuel marine engines. In 2017, Wartsila launched the Wartsila HY, a fully integrated hybrid power module combining different power sources, an energy storage system, and power electronics optimised to work together through a newly developed energy management system. It is the marine sector's first hybrid power module of this type produced, thereby establishing a new industry benchmark in marine hybrid propulsion and providing a lower environmental impact than conventional machinery solutions. Wärtsilä is also involved in numerous global and local partnerships, such as the IMO's Global Industry Alliance, the Sustainable Shipping Initiative, and the Sustainable Marine Biofuel Initiative.



Responsible business conduct

The company's commitment to sustainability and responsible business is central to its purpose and strategy. Wärtsilä's values and Code of Conduct define common rules for all employees, and provide guidance on Wärtsilä's approach to responsible business practices.

Wärtsilä's Code of Conduct and supporting policies expressly prohibit the company, its employees and suppliers from offering or accepting any kind of benefit considered a bribe, and from taking actions that could give rise to a conflict of interest or breach of loyalty. Wärtsilä complies with international good practices and anti-corruption laws of the countries in which Wärtsilä operates, and urges the reporting of any cases of corruption and bribery. The implementation of these policies is supported by an extensive training programme for all Wärtsilä employees. In 2017, Wärtsilä launched an externally hosted whistle blower channel for all employees to report concerns related to potential misconducts of the Code of Conduct or the company's policies.

Wärtsilä aims to contribute towards the well-being of local communities in which the company is present. Means for this include, for example, creating employment, paying taxes and social dues, providing training and education to employees, co-operating with local stakeholders, and supporting local development.



Governance

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Corporate governance

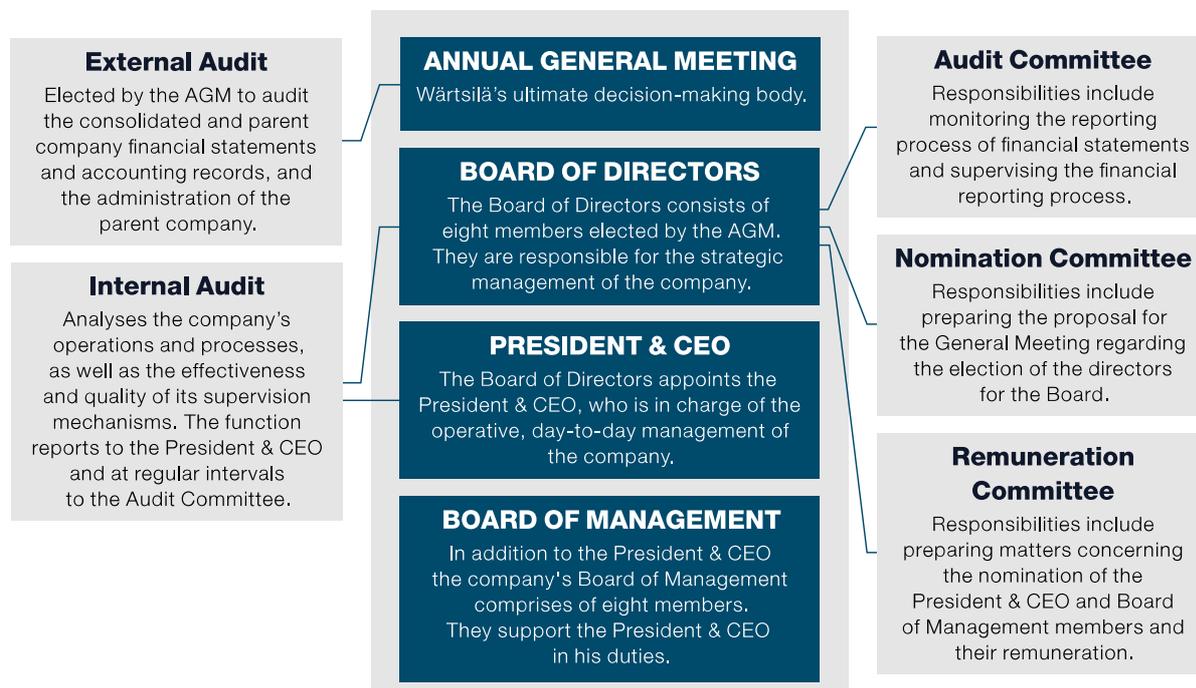
Wärtsilä Corporation complies with the guidelines and provisions of its Articles of Association, the Finnish Limited Liability Companies Act, and the rules and regulations of Nasdaq Helsinki Ltd. Wärtsilä also applies the Global Reporting Initiative’s G4 Sustainability Reporting Guidelines and complies 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 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 auditor. The Board of Directors is responsible for the strategic management of the company, and is assisted in its work by the Board Committees. The Board appoints the President & CEO. He is in charge of the operative, day-to-day management of the company, with support from the Board of Management.

Wärtsilä’s governance model



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. Agenda items for the General Meeting of shareholders include the following:

- approving the financial statements
- deciding on the distribution of dividends
- discharging the company's Board of Directors and President & CEO from liability for the financial year
- electing the company's Board of Directors and auditor 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 2017

Wärtsilä's Annual General Meeting was held on 2 March 2017. A total of 1,646 shareholders representing 113,297,157 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 2016. The Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.30 per share in two instalments. The first instalment of EUR 0.65 per share was paid on 13 March 2017, and the second instalment of EUR 0.65 per share was paid on 21 September 2017. The audit firm PricewaterhouseCoopers Oy was elected as the auditor of the Company for the year 2017, following a tendering process initiated by Wärtsilä's Audit Committee. The Annual General Meeting authorised the Board of Directors to repurchase and/or distribute a maximum of 19,000,000 shares.

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 Wartsilä Corporation. Born 1949, B.Sc. (Econ.). Member of the Board of Wartsilä 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 Board; Evli Bank Ltd., Member of the Board; Ab Kelonia Oy, Member of the Supervisory Board.

Holdings in Wartsilä Corporation on 31.12.2017: 19,359 shares



Tom Johnstone CBE

Independent of the company, dependent of significant shareholders. Born 1955, Master of Arts, Honorary Doctorate in Business Administration and Honorary Doctorate in Science. Member of the Board of Wartsilä Corporation since 2015, Deputy Chairman of the Board since 2017.

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, Combient AB and Husqvarna AB, Chairman of the Board; Investor AB and Volvo Cars, Member of the Board.

Holdings in Wartsilä Corporation on 31.12.2017: 2,069 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 Wartsilä 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

Directors' Institute Finland – Hallitusammattilaiset ry and ecoDa (The European Confederation of Directors' Associations), Member of the Board. Finland National Committee for UN Women, Chairman of the Board.

Relevant prior positions of trust

Board memberships: Berendsen plc, 2014-2017; Rautaruukki Oyj, 2005-2012; Ponsse Oyj, 2007-2010 and Vattenfall AB, Sweden, 2004-2007.

Holdings in Wartsilä Corporation on 31.12.2017: 10,282 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

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

Relevant prior positions of trust

Board chairmanships: Sponda Oyj 2013-2017; Stockmann plc 2014-2016; Fiskars Corporation 2006-2014; Ålandsbanken Abp 2011-2013 and Aktia Abp 2005-2009. Board memberships: Fiskars Corporation 2014-2015 and Stockmann plc 2007-2013.

Holdings in Wärtsilä Corporation on 31.12.2017: 9,504 shares



Karin Falk

Independent of the company and significant shareholders. Born 1965, B.Sc. (Econ.). Senior Vice President Volvo Trucks Services & Customer Quality. Member of the Board of Wärtsilä Corporation since 2017.

Primary working experience

Volvo Group, Executive Vice President, Corporate Strategy & Brand Portfolio 2012-2016; Volvo Group, President, Non-Automotive Purchasing 2008-2012. Volvo Car Corporation, Vice President, Volvo Car Customer Service 2006-2008; Volvo Car Corporation, President, Volvo Car Special Vehicles 2001-2006; Various positions within Volvo Cars and Volvo Group 1988-2001.

Other positions of trust

Volvo Group Venture Capital, Member of the Board.

Holdings in Wärtsilä Corporation on 31.12.2017: 472 shares



Johan Forssell

Independent of the company, dependent of significant shareholders. Born 1971, M.Sc. (Economics and Business Administration). President and CEO of Investor AB. Member of the Board of Wärtsilä Corporation since 2017.

Primary working experience

Investor AB, Head of Core Investments and Member of the Management Group, 2006-2015; Investor AB, Project Director, 2014; Aleris AB, Head of Research, 2003-2006; Investor AB, Head of Capital Goods and Healthcare sector, 2001-2003; Investor AB, Head of Capital Goods sector and Analyst, 1995-1999.

Other positions of trust

Atlas Copco, EQT AB, Epiroc AB and Patricia Industries, Member of the Board.

Holdings in Wärtsilä Corporation on 31.12.2017: 472 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, Chief Investment Officer, 2006-2010; Opstock Ltd, Managing Director, 2000-2005; Opstock Ltd, Director, 1997-2000.

Other positions of trust

University of Oulu and The Finnish Pension Alliance TELA, Chairman of the Board; Sampo plc, Member of the Board.

Holdings in Wärtsilä Corporation on 31.12.2017: 2,452 shares

**Markus Rauramo**

Independent of the company and significant shareholders. Born 1968, M.Sc. (Econ. and Pol. Hist.). Chief Financial Officer 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, City Solutions Division 2016-2017; 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 31.12.2017: 5,006 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 8-11 times a year following a pre-determined schedule. In addition to these meetings, the Board convenes as necessary. All board 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 2017, 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 2017

As of 2 March 2017, the Board consisted of the following eight members: Ms Maarit Aarni-Sirviö, Mr Kaj-Gustaf Bergh, Ms Karin Falk, Mr Johan Forssell, Mr Tom Johnstone (deputy chairman), Mr Mikael Lilius (chairman), Mr Risto Murto, 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. Mr Johan Forssell was determined to be dependent of significant shareholders, due to his position as the President and CEO of Investor AB.

Until 2 March 2017, 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 2017, Wartsilä's Board of Directors held nine meetings. The average attendance of all directors was 100%. The financial and strategic development of Wartsilä and its position in the markets, its growth opportunities, and the general further development of the Company have been, among others, the major items on the Board's agenda. People matters are also an important and continuous part of the Board's work, as they contribute to Wartsilä's long-term success. During 2017, areas of particular focus included the digital strategy of the Group, business development in Asia as well as the acquisition of Greensmith Energy Management Systems Inc.

Board member meeting participation in 2017

	Number of meetings	% of meetings
Mikael Lilius, Chairman	9/9	100
Tom Johnstone, Deputy Chairman	9/9	100
Maarit Aarni-Sirviö	9/9	100
Kaj-Gustaf Bergh	9/9	100
Karin Falk	8/8	100
Johan Forssell	8/8	100
Risto Murto	9/9	100
Markus Rauramo	9/9	100
Until 2 March 2017		
Sune Carlsson	2/2	100
Gunilla Nordström	2/2	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 2017

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 2017. 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, if needed, the Committee proposes adjustments 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 2017

Chairman Mikael Lilius, members Kaj-Gustaf Bergh, Johan Forssell and Risto Murto. All members are independent of the company and three are independent of significant shareholders. The Nomination Committee met two times in 2017. 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 2017

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 2017. The average attendance of all Committee members was 100%.

Board member committee meeting participation in 2017

	Audit Committee	Nomination Committee	Remuneration Committee
Mikael Lilius	-	2/2	3/3
Tom Johnstone	-	-	3/3
Maarit Aarni-Sirviö	5/5	-	3/3
Kaj-Gustaf Bergh	-	2/2	-
Karin Falk	-	-	-
Johan Forssell	-	2/2	-
Risto Murto	5/5	2/2	-
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 and The Finnish Foundation for Share Promotion, Member of the Board.

Relevant prior positions of trust

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

Holdings in Wärtsilä Corporation on 31.12.2017: 8,481 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 31.12.2017: 7,277 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 31.12.2017: 4,933 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 31.12.2017: no shares

Kari Hietanen

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, Member 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; International Trade Committee, Finland Chamber of Commerce / ICC Advisory Board, ICC Finland, member.



Holdings in Wärtsilä Corporation on 31.12.2017: 5,211 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.

Holdings in Wärtsilä Corporation on 31.12.2017: no shares



Atte Palomäki

Executive Vice President, Communications & Branding, 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 and 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 Board.

Holdings in Wartsilä Corporation on 31.12.2017: 4,831 shares

**Marco Ryan**

Executive Vice President and Chief Digital Officer since 2016. Born 1966, BSc (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 Wartsilä Corporation on 31.12.2017: 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; Eitel 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 Wartsilä Corporation on 31.12.2017: 4,905 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. 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 developing and executing Wärtsilä's digital strategy, 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 2017

In 2017, 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, costs and Wärtsilä's organisational structure. Digitalisation and security, in particular cybersecurity, were also high on the agenda, as was occupational health and safety and operational excellence. Carrying out the acquisition of Greensmith Energy Management Systems Inc., and planning and implementing the integration process was another important area of focus. Furthermore, the Board of Management continuously addresses the development of the regulatory operating environment, order intake and production capacity, as well as supplier and other stakeholder relationships.

Corporate management

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

Juha Hiekkanen

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.)

Tom Unnérus

Vice President, Corporate Internal Audit
Born 1972, M.Sc. (Eng.)

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.)

Alexandre Eykerman

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

John Jung

CEO & President, Greensmith Energy, Vice President, Energy Storage and Integration
Born 1967, B.Sc. (Econ.), MBA (Strategy & Finance)

Senja Koivusalo

Vice President, Human Resources

Born 1979, BBA, MBA

Melle Kruisdijk

Vice President, Europe and Acting Vice President, Africa

Born 1971, M.Sc. (Mech. Eng.)

Antti Kämi

Vice President, Engine Power Plants

Born 1964, M.Sc. (Civil Eng.)

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.

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 Iveskoski

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, until December 2017

Born 1962, MBA

Juha Kytölä

Vice President, Environmental Solutions
Born 1964, Ph.D (Dr. Eng)

Arto Lehtinen

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

Annika Parkkonen

Vice President, Human Resources
Born 1971, M.Sc. (Politics)

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

Henrik Dahl

Vice President, Services 4.0
Born 1978, B.Sc. (Tech.)

Tamara de Gruyter

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

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.)

Walter Reggente

Vice President, Area Americas

Born 1965, Chief Marine Engineer

Vesa Riihimäki

Vice President, Quality

Born 1966, M.Sc. (Eng.)

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 Wäertsilä'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 Wäertsilä'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 Wäertsilä's system of internal control. Wäertsilä's policy is 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 Wäertsilä's system of internal control. Wäertsilä'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 Wäertsilä's people related processes to enable effective internal control, also at the individual level.

Other management systems

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

Quality

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

Sustainability

Wäertsilä is strongly committed to sustainability. Wäertsilä's purpose and values, together with a solid financial performance, form the basis for sustainable development within Wäertsilä. Wäertsilä 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.

Wäertsilä'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 Wäertsilä'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 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.

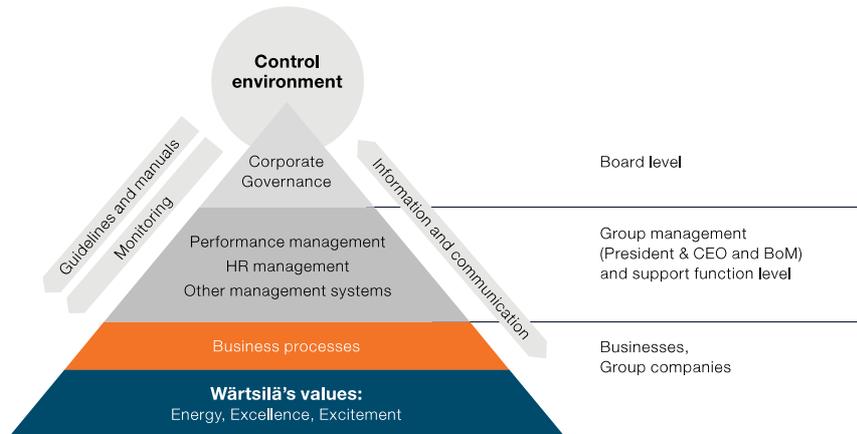
Each Business reports its main risks to Wärtsilä's Board of Management, which reviews the execution of the defined risk management action plans on a regular basis. Wärtsilä's Board of Directors is responsible for defining the Group's overall level of risk tolerance, and for ensuring that Wärtsilä has 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 of this report.

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 in 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 in combination 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 2017

The Annual General Meeting appointed the audit firm PricewaterhouseCoopers Oy (PwC) as Wärtsilä Corporation's auditor for the year 2017. The auditor-in-charge was Mr Tomi Hyryläinen. Auditing fees paid to PwC amounted to EUR 2.9 million in 2017. Consultancy fees unrelated to auditing duties totalled EUR 0.3 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 insider lists 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.

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.

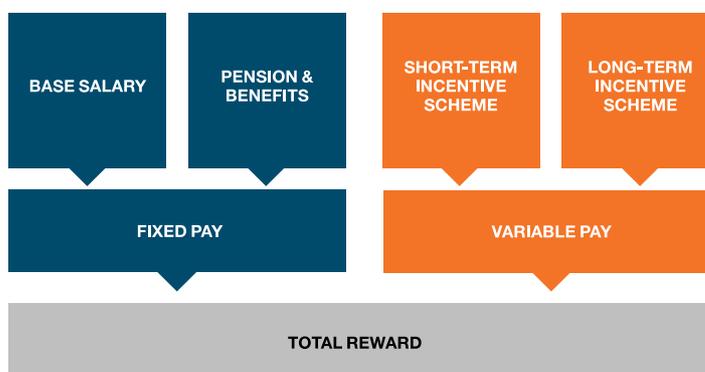
Mikael Lilius

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)	Group Cash Flow from operating activities (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 Board of Directors	Attendance fees		Yearly fees		Total	
	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

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.

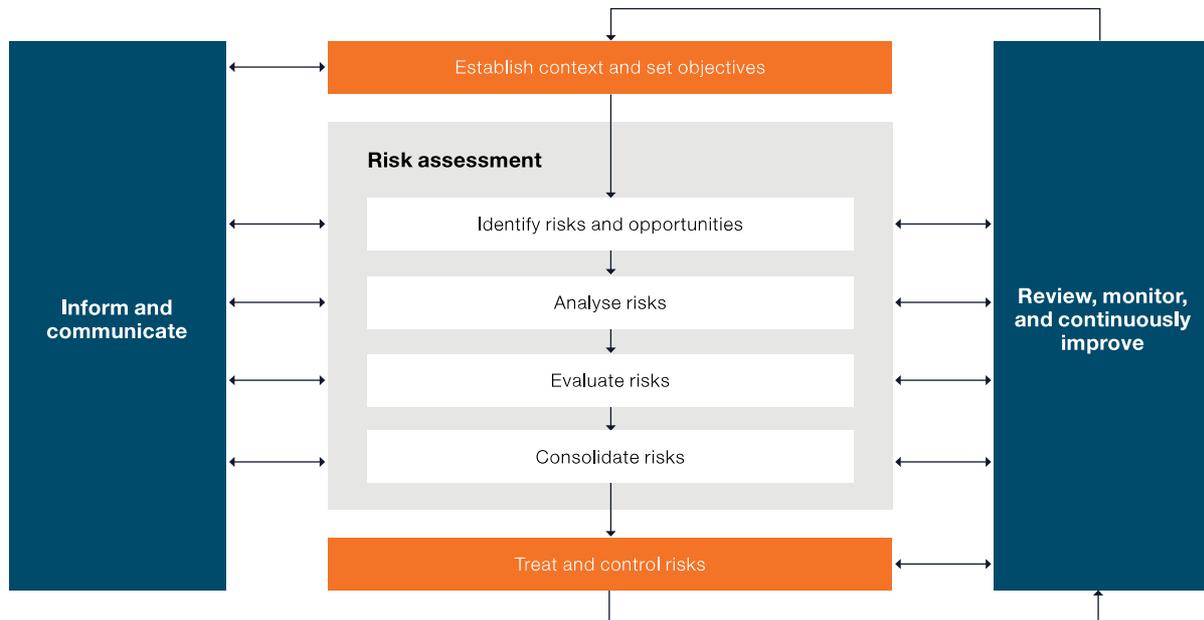
Risk management policy and process

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 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.

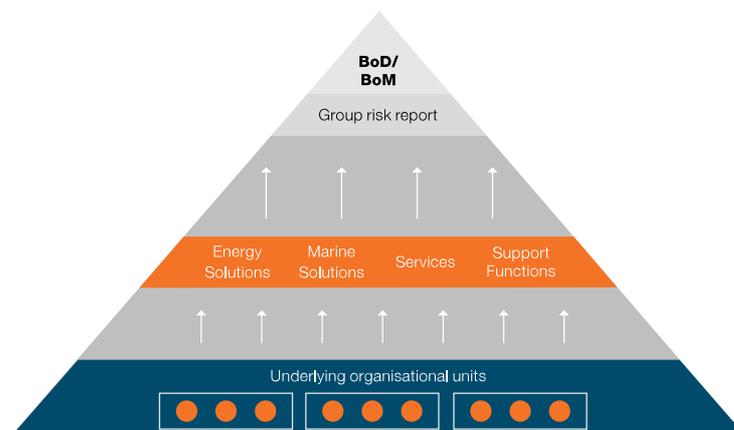
Risk management guidelines and principles



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 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 the annual risk assessment workshops between the Businesses and the Corporate Risk Management function. During the recent years a similar risk mapping process has been adopted also with certain main support functions such as HR and the Group Treasury. Business or function 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.



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.

Energy storage is emerging as disruptive technology to change the paradigm of power systems and Wärtsilä is strongly participating in the new market developments through the acquisition of Greensmith. Rapid deployment of new technologies can create new risks related to managing complex hybrid installations in an optimal way. Greensmith Energy Management System (GEMS) is proven to be an efficient and stable software to control and operate complex systems, which gives Wärtsilä a competitive advantage in managing the related risks.

Market and customer risks

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 12,000 individual customers engaging in service and spare part sales annually, and the current active base of installed Wärtsilä engines is approximately 180,000 MW. Thus, dependency on any single customer or customer segment is limited.

In the Energy Solutions business, the same challenges that impacted the market in 2016 continued in 2017, but not as strongly. Fragile economic growth and slow decision-making represent the primary risks for demand development. Geopolitical tensions and significant currency fluctuations can result in investment decisions being postponed in certain countries. Low oil prices have a

similar impact in the oil and gas producing countries. 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. Conditions in the marine markets improved somewhat in 2017. However, challenges resulting from the uncertainty in the shipping and shipbuilding business environment continued to affect markets. The consolidation in the market continued in 2017 leading to a decreasing number of major shipbuilding customers. Order book levels remained on the lower side in 2017. Despite positive development in the cruise and ferry segment and slight improvement in the merchant industry, the gas carrier and offshore segments continued to suffer from overcapacity and low freight rates. The importance of fuel efficiency and environmental regulations are clearly visible, driving interest in environmental solutions, gas as a marine fuel, as well as electric/hybrid solutions. Digitalisation became increasingly important for the shipping industry's business and operating models during 2017. 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 and special vessel segments.

Competitive situation and price risks

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 an 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.

In Energy Solutions' larger gas-fired projects, Wärtsilä faces 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. Price pressure resulting from the prevailing competitive environment remains a risk. 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 25.2 GW during the twelve months ending in September. Wärtsilä's market share was 15%. 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 2017. The most significant competitors in the main engine markets are MAN Diesel & Turbo and Caterpillar (MAK). Wärtsilä has a strong position in medium-speed main engines with a 47% market share in 2017. In auxiliary engines, Wärtsilä's market share was 10%. 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 and Evac are two of the main competitors in environmental solutions, while in the Electrical and Automation segment Wärtsilä faces competition from companies like 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.

Political and legislative risks

Wärtsilä is present in over 200 locations in more than 80 countries and has delivered power plants to 177 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 complied with and closely monitored during 2017. 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. Wärtsilä recently entered both the solar energy and energy storage businesses; 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 [Sustainability](#) section 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. Connectivity and the utilization of data to further optimize efficiency and unlock new customer values is becoming an increasingly important element of Wärtsilä's development roadmap.

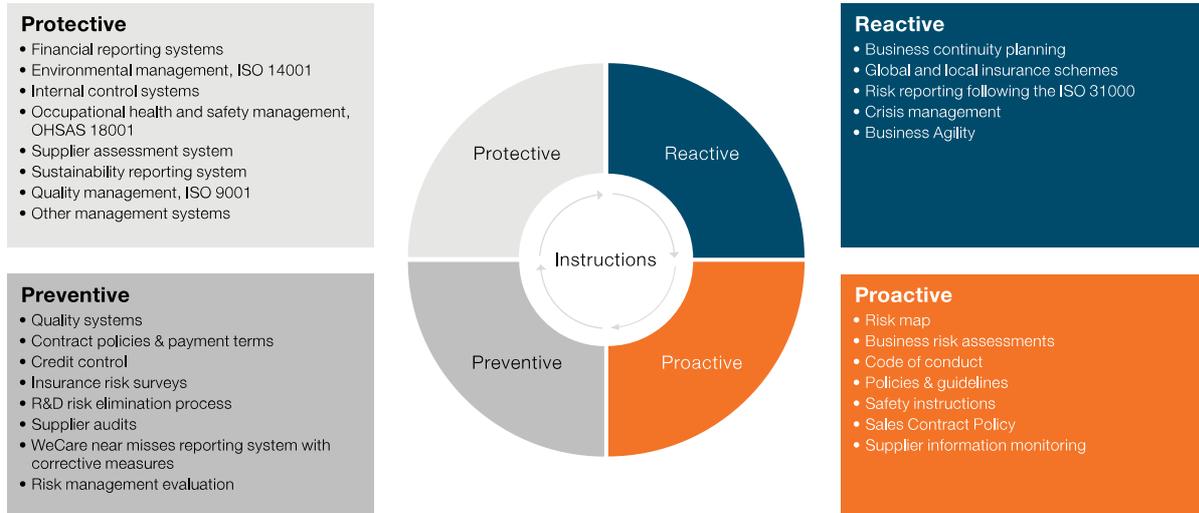
Operations, risks and opportunities



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 aim is to work in partnership with the supplier base to create value for Wärtsilä’s customers by ensuring quality, on-time delivery and the lowest total cost. In order to ensure coordinated interfaces and synergies for the cross-divisional supplier base, a category management structure has been in place since 2007. 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 regular 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. Wartsilä 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.

As part of the on-going digital transformation, a so-called Agile way of working is being adopted in the Digital organisation, which allows Wartsilä to test new ideas and business models quickly in order to promptly adapt to changing market needs. This approach is used for conceptualisation to avoid the risk of losing business opportunities, while products continue to go through the established GATE development. Thereby, the two models complement each other and are used in different context within the organisation.

Wartsilä 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.

Wartsilä 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 Wartsilä 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

Wartsilä'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

Wartsilä complies with the law and its own internal policies and procedures everywhere the company does business. Wartsilä's Code of Conduct is the key guideline for all employees globally. Wartsilä 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 Wartsilä'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 Wartsilä employees. Wartsilä is fully committed to compliance with the anti-corruption laws and statutes. Wartsilä'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 Wartsilä'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. Wärtsilä has a Group-wide programme for strengthening its Code of Conduct which 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.

Cyber & information 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 evaluated. The mitigation activities are executed in Wärtsilä networks, endpoints and services. The Wärtsilä Security Operations Centre monitors the internal threat exposure level and provides a coordinated response to identified information security incidents.

At Wärtsilä the businesses are responsible for monitoring the regulatory developments in the maritime and energy production sectors, thus securing that the company's offerings are compliant with the applicable regulations now and in the future. In context with cyber related regulation, the businesses are supported by the Cyber Security function.

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

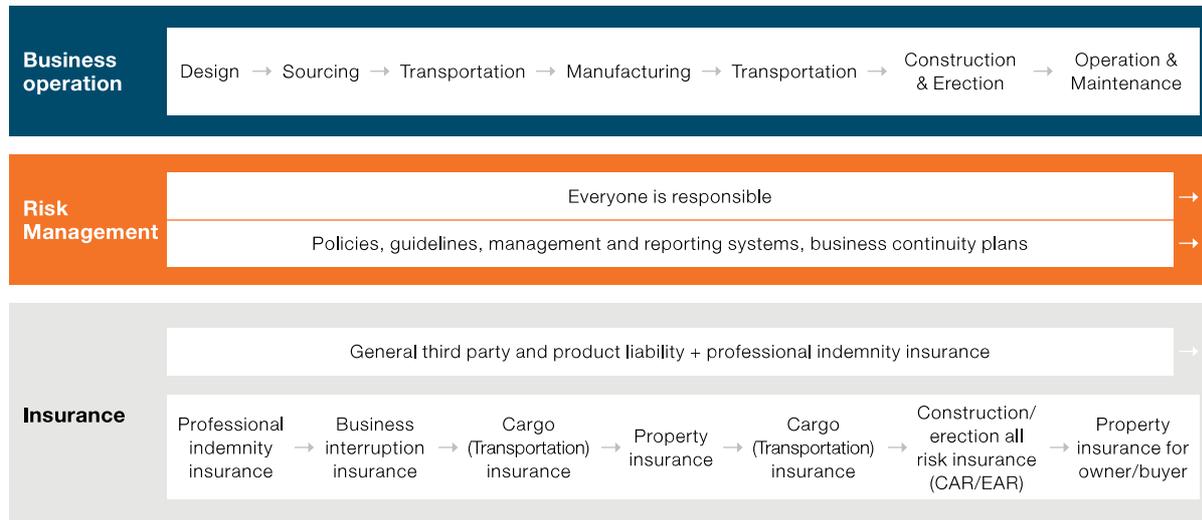
Occupational health and safety systems, travel safety instructions, and crisis management guidelines are aimed at protecting Wärtsilä employees. Appropriate insurances are in place for the personnel, and to emphasise the importance of employee safety, the Board of Management has decided on a corporate 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 2017, 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 provides 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.

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 29](#).

Risk profiles and 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
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, 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, Whistle-blowing channel	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, 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

Investors

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Shares

Wärtsilä Corporation's shares are listed on the Nasdaq Helsinki Large Cap list under the trading code WRT1V. At the end of the financial period 2017, the number of Wärtsilä shares totalled 197,241,130 and the share capital entered in the trade register was EUR 336,002,138.50. Wärtsilä has one share series with each share entitling its holder to one vote at the General Meeting and to an equal dividend.

Key figures for the Wärtsilä share

		2017	2016	2015	2014	2013
Earnings per share (EPS)	EUR	1.95	1.79	2.25	1.76	1.98
Book-value of equity per share	EUR	12.02	11.60	11.16	9.94	9.35
Dividend per share	EUR	1.38 ¹	1.30	1.20	1.15	1.05
Dividend per earnings	%	70.8 ¹	72.8	53.3	65.4	53.0
Dividend yield	%	2.6 ¹	3.0	2.8	3.1	2.9
Price per earnings (P/E)		27.0	23.8	18.8	21.1	18.1
Price to book-value (P/BV)		4.4	3.7	3.8	3.7	3.8
Adjusted number of shares	x 1 000					
End of financial year		197 241	197 241	197 241	197 241	197 241
On average		197 241	197 241	197 241	197 241	197 241

¹ Proposal of the Board of Directors.

Wärtsilä shares on Nasdaq Helsinki

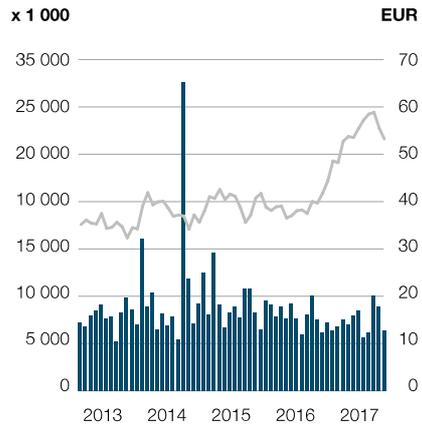
Wärtsilä's share price increased by 23.2% during 2017, while the OMX Helsinki Cap index increased by 7.3%. The highest quoted price for Wärtsilä's share during the financial period was EUR 62.30 and the lowest EUR 41.90. The closing price on 31 December 2017 was EUR 52.60 and the volume weighted average price for the year was EUR 53.70. At year-end, Wärtsilä's market capitalisation was EUR 10,375 million. The volume of trades on Nasdaq Helsinki was 89,407,327 shares, equivalent to a turnover of EUR 4,800 million. Wärtsilä's shares are also traded on alternative exchanges, including Turquoise, BATS CXE and BATS BXE. The total trading volume on these alternative exchanges was 60,463,921 shares. Further information on the company's share price development can be found on Wärtsilä's IR pages at www.wartsila.com/investors.

Share price development



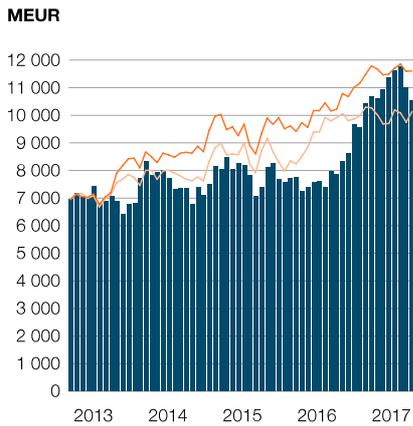
■ WRT1V high/low
 ■ OMX Helsinki
 ■ OMXHCAP

Traded shares/month



■ WRT1V
 ■ Average share price, WRT1V

Market capitalisation



■ Monthly average, WRT1V
 ■ OMX Helsinki
 ■ OMXHCAP

Wärtsilä shares on Nasdaq Helsinki

		2017	2016	2015	2014	2013
Trading volume	MEUR	4 800	3 826	4 529	5 114	3 328
Number of traded shares	x 1 000	89 407	98 870	113 737	132 525	95 127
Stock turnover	%	45.3	50.1	80.0	67.2	48.2
Share price, high	EUR	62.30	43.44	44.97	43.82	39.00
Share price, low	EUR	41.90	33.90	33.22	31.85	30.66
Average share price	EUR	53.70	38.68	39.83	38.09	35.00
Share price at year-end	EUR	52.60	42.68	42.15	37.09	35.77
Year-end market capitalisation	MEUR	10 375	8 418	8 314	7 315	7 055

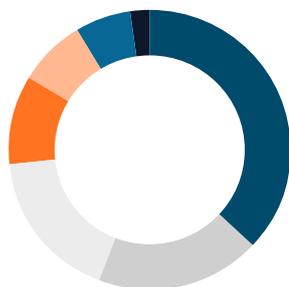
Shareholders

Wärtsilä had approximately 39,900 shareholders at the end of the financial period 2017. Foreign shareholding, including nominee-registered shares, represented 55.9% (55.0) at the end of the period, and Finnish retail investors held 17.7% of the share capital (18.4). The largest shareholder was Investor AB with 34,866,544 shares or 17.7% of the share capital. Further information concerning shareholder base development can be found on the Wärtsilä IR pages at www.wartsila.com/investors.

Ownership structure on 31 December 2017

Group	Number of shareholders	%	Number of shares	%
Private corporations	1 401	3.5	15 278 487	7.7
Banks and insurance companies	60	0.2	4 333 981	2.2
Public sector entities	44	0.1	20 075 089	10.2
Non-profit organisations	834	2.1	12 423 031	6.3
Households	37 212	93.4	34 829 847	17.7
Outside Finland	310	0.8	36 898 320	18.7
Nominee registered			73 402 375	37.2
Total	39 861	100.0	197 241 130	100.0

Ownership structure 31 December 2017



- Nominee registered, 37.2% (36.0%)
- Outside Finland, 18.7% (19.0%)
- Households, 17.7% (18.4%)
- Public sector entities, 10.2% (9.9%)
- Private corporations, 7.7% (8.1%)
- Non-profit organisations, 6.3% (7.2%)
- Banks and insurance companies, 2.2% (1.5%)

Division of shares on 31 December 2017

Number of shares	Number of shareholders	%	Number of shares	%
1-100	13 505	33.9	675 507	0.3
101-1 000	19 013	47.7	7 582 922	3.8
1 001-10 000	6 666	16.7	18 238 762	9.2
10 001-100 000	606	1.5	14 488 730	7.3
100 001-1 000 000	61	0.2	15 321 812	7.8
1 000 001-10 000 000	7	0.0	11 522 523	5.8
10 000 001-	3	0.0	56 008 499	28.4
Nominee registered			73 402 375	37.2
Total	39 861	100.0	197 241 130	100.0

Wärtsilä's 50 major shareholders on 31 December 2017, excluding nominee registered

	Owner	Shares	%
1	Inwav Invest AB, a wholly-owned subsidiary of Investor AB	34 866 544	17.68
2	Fiskars Corporation	10 881 781	5.52
3	Varma Mutual Pension Insurance Company	10 260 174	5.20
4	Ilmarinen Mutual Pension Insurance Company	2 984 934	1.51
5	The Social Insurance Institution of Finland	1 935 910	0.98
6	Elo Mutual Pension Insurance Company	1 505 000	0.76
7	Svenska Litteratur-sällskapet i Finland rf	1 495 784	0.76
8	State Pension Fund	1 480 000	0.75
9	Keva	1 107 327	0.56
10	Sijoitusrahasto Nordea Pro Suomi	1 013 568	0.51
11	The Finnish Cultural Foundation	973 480	0.49
12	Jenny and Antti Wihuri Foundation	900 000	0.46
13	Sigrid Jusélius Foundation	866 475	0.44
14	Schweizerische Nationalbank	658 661	0.33
15	Savox Investments S.a.	570 000	0.29
16	Oy Ingman Finance Ab	560 000	0.28
17	Rantanen Tuula Anneli	505 066	0.26
18	The Signe and Ane Gyllenberg foundation	497 888	0.25
19	Samfundet Folkhälsan i Svenska Finland rf	478 200	0.24
20	Louise och Göran Ehrnrooth Stiftelse sr	352 630	0.18
21	Livränteanstalten Hereditas Ab	334 690	0.17
22	Blåberg Olli Edvard	320 000	0.16
23	Folkhälsan i Svenska Finland rf Inez och Julius Polins Fond	279 600	0.14
24	Sijoitusrahasto Nordea Suomi	276 160	0.14
25	Fromond Elsa Margaretha Louise	275 500	0.14
26	Sijoitusrahasto Nordea Pohjoismaat	272 814	0.14
27	Stockmann Marita	271 226	0.14
28	William Thuring's Stiftelse sr	269 650	0.14
29	Holding Manutas Oy	255 000	0.13
30	Sijoitusrahasto Seligson & Co	252 261	0.13
31	Sijoitusrahasto Aktia Capital	250 000	0.13
32	Von Fieandt Berndt Johan	235 382	0.12
33	Åbo Akademi Foundation	218 610	0.11
34	Brita Maria Renlund Foundation	213 600	0.11
35	Mandatum Henkivakuutus-osakeyhtiö	208 064	0.11
36	Sijoitusrahasto Nordea Suomi Indeksirahasto	205 198	0.10
37	Holdix Oy Ab	204 050	0.10
38	Sr Danske Invest Suomi Yhteisöosake	201 912	0.10
39	Seb Finlandia Sijoitusrahasto	193 078	0.10
40	Markkola Leena	172 500	0.09
41	Folkhälsans Forskningsstiftelse - Kansanterveyden tutkimussäätiö	172 068	0.09
42	Barry Staines Linoleum Oy	166 570	0.08
43	Perceval Ann-Marie Caussin De	166 280	0.08
44	Karlsson Anne Christine	160 000	0.08
45	Suomen Kauppayhtiöt Oy	158 400	0.08
46	Etera Mutual Pension Ins. Company	154 679	0.08

47	Sijoitusrahasto Evli Suomi Select	152 500	0.08
48	Brotherus Pia Monica	151 002	0.08
49	Odin Finland	141 505	0.07
50	Ella and Georg Ehrnrooth Foundation	141 500	0.07
Total		80 367 221	40.75

Changes in ownership – flagging notifications

Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the listed company of changes in their holdings. The table below summarises the flagging notifications received by Wartsilä during 2017, further information can be found on Wartsilä's webpage.

Release date	Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
23.11.2017	22.11.2017	BlackRock Investment Management (UK) Limited	Above 5%	4.63	5.05
30.11.2017	29.11.2017	BlackRock Investment Management (UK) Limited	Above 5%	5.10	5.47

Management holdings

The members of the Board of Directors, the President & CEO, the CEO's deputy, and the corporations under their control, owned altogether 65,374 shares in Wartsilä Corporation at the end of 2017, which represents 0.03% of the stock and voting rights. Further details on the Board of Directors' and Board of Management's ownership of shares can be found in the [Corporate Governance](#) section.

Authorisations granted to the Board of Directors

The Annual General Meeting, held on 2 March 2017, authorised the Board of Directors to resolve to repurchase a maximum of 19,000,000 of the Company's own shares. The authorisation to repurchase the Company's own shares shall be valid until the close of the next Annual General Meeting, however for no longer than 18 months from the authorisation of the shareholders' meeting.

The Board of Directors was authorised to resolve to distribute a maximum of 19,000,000 of the Company's own shares. The authorisation for the Board of Directors to distribute the Company's own shares shall be valid for three years from the authorisation of the shareholders' meeting and it cancels the authorisation given by the General Meeting on 3 March 2016. The Board of Directors is authorised to resolve to whom and in which order the Company's own shares will be distributed. The Board of Directors is authorised to decide on the distribution of the Company's own shares other than in proportion to the existing pre-emptive right of the shareholders to purchase the Company's own shares.

The Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 1.38 euro per share be paid for the financial year 2017. The dividend will be paid in two instalments.

Wartsilä on the capital markets

Wartsilä's Investor Relations (IR) team, consisting of the CEO, CFO, IR Director, and IR Officer, participated in approximately 300 investor meetings during 2017. The team also maintained regular contact with equity research analysts throughout the year.

Meetings were conducted in North America, the United Kingdom, continental Europe, and in the Nordic countries. The IR team also attended seven institutional investor conferences in Finland and abroad. In addition to one-on-one and group meetings, Wartsilä hosted visits to its manufacturing sites in Trieste and Vaasa. During the year, Wartsilä's foreign ownership represented

55.9% (55.0) of the total shareholder base. Investors in Sweden, the United Kingdom and the United States held the largest percentage of foreign shares.

During the year, Wärtsilä gave presentations at events aimed at domestic private investors. Such events included one hosted by the Finnish Foundation for Share Promotion and one for Helsingin Osakesäästäjät. In 2017, retail investors accounted for approximately 17.7% (18.4) of Wärtsilä's shareholder base.

Wärtsilä's Investor Relations policy

The ultimate objective of Wärtsilä's Investor Relations is to produce accurate, sufficient, and up-to-date information regarding the development of Wärtsilä's business operations, strategy, markets, and financial position. This is to ensure that the capital markets have the relevant information concerning Wärtsilä in order to determine the fair value of the Company's shares. To achieve this objective, Wärtsilä publishes annually two interim reports, a half-year financial report, a financial statements bulletin, an annual report, and stock exchange releases. Furthermore, Wärtsilä's management conducts regular discussions with analysts and investors, both in Finland and abroad. Wärtsilä's web pages serve as an archive for all current and historical data on factors affecting the value of its shares.

Prospects

Guidance on Wärtsilä's prospects is published in the financial statements bulletin, in the half-year financial report, and in the interim reports. The most recently published prospects statement is repeated in the annual report. The published prospects consist of expectations regarding demand development in Wärtsilä's markets, which are approved by the Board of Directors. Wärtsilä does not publish quarterly result forecasts.

Should there be a change in business circumstances that could affect the prospects, Wärtsilä will publish changes to the prospects in accordance with prevailing regulations.

Analyst reports

Wärtsilä will review, upon request by an analyst, his or her earnings model or report only for factual accuracy, or information that is in the public domain. Wärtsilä does not comment on, or take any responsibility for, estimates or forecasts published by capital market representatives.

Silent period

Wärtsilä observes a three-week silent period preceding the publication of its results to prevent the revealing of unpublished financial information. During this period, the Company's representatives do not meet with investors or analysts or comment on its financial position.

Disclosure policy and financial communications

Wärtsilä discloses information on its goals, financial position, and business operations in an open, timely, truthful, and systematic manner so as to enable stakeholders to form a true and fair view of the Company. Wärtsilä publishes stock exchange releases, press releases, and trade press releases. Wärtsilä's subsidiaries publish press releases with local relevance.

Matters that contain inside information and may have a material impact on the value of the Company's financial instruments are published as stock exchange releases. Press releases contain information on events relating to Wärtsilä's normal business operations, which are assessed to be of general interest for investors and media. Releases to the trade press provide more detailed information on Wärtsilä's products and technologies. All stock exchange releases are published in Finnish, Swedish, and English. Press releases are published in English and can also be published in Finnish and Swedish. Trade press releases are published in English, and local releases in the local language. All releases are available on Wärtsilä's website immediately following publication.

Contacts

Relations with the Company's investors and analysts are handled by IR Director Natalia Valtasaari, together with the IR team. General enquiries can be sent to investor.relations@wartsila.com.

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Wärtsilä's corporate communications are the responsibility of Atte Palomäki, Executive Vice President, Communications & Branding.

Atte Palomäki

Executive Vice President, Communications & Branding
Tel. +358 10 709 5599
atte.palomaki@wartsila.com

Analysts

To the best of Wärtsilä's knowledge, the below listed brokers and financial analysts, and possibly others, follow the Company's development on their own initiative. They have analysed Wärtsilä and drawn up reports and comments. As a result, they are able to evaluate the Company as an investment target. Wärtsilä takes no responsibility for the opinions expressed.

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UBS Deutschland AG	Sven Weier	sven.weier@ubs.com +49 69 1369 8278

Information for shareholders

Annual General Meeting

The Annual General Meeting of Wärtsilä Corporation will take place on Thursday, 8 March 2018, beginning at 3 p.m., in the Congress Wing of the Helsinki Fair Center, address: Messuaukio 1, 00520 Helsinki, Finland.

Right to attend

Shareholders registered no later than 26 February 2018 in the Company's list of shareholders maintained by Euroclear Finland Ltd have the right to attend the Annual General Meeting.

Notification of attendees

Shareholders wishing to attend the Annual General Meeting are required to inform the Company thereof no later than 4 p.m. on 5 March 2018 either by e-mail, on the Company's website www.wartsila.com/agm_register, by telephone or by regular mail. Letters and e-mails informing of participation must reach the Company before the notification period expires at 4 p.m. on 5 March 2018. Letters authorising a proxy to exercise a shareholder's voting right at the Annual General Meeting should also reach the Company before the notification period expires.

Registration:

Wärtsilä Corporation
Share Register
P.O. Box 196
FI-00531 Helsinki
Finland

Telephone: +358 10 709 5282, between 9 a.m. and 12 p.m. (noon) on weekdays

E-mail: yk@wartsila.com

Internet: www.wartsila.com/agm_register

Payment of dividend

The Board of Directors proposes that a dividend of EUR 1.38 per share be paid for the financial year 2017. The dividend will be paid in two instalments.

The first instalment of 0.69 euro per share will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date 12 March 2018. The payment date proposed by the Board for this instalment is 19 March 2018.

The second instalment of the dividend shall be paid in September 2018. If the Board's proposal concerning a share issue without payment ('share split') is approved, the second instalment will be divided between one old and two new shares so that EUR 0.23 will be paid for each share. If the general meeting does not approve the share issue without payment proposed by the Board, the second instalment will be paid in the same manner as the first, i.e. EUR 0.69 per share.

The second dividend instalment will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the dividend record day, which, together with the payment day, shall be decided by the Board of Directors in its meeting scheduled for 18 September 2018. The dividend record day for the second instalment as per the current rules of the Finnish book-entry system would be 20 September 2018 and the dividend payment day 27 September 2018.

Stock exchange releases

Wärtsilä's stock exchange releases are available in English, Finnish, and Swedish on Wärtsilä's website.

Financial calendar 2018

Annual Report 2017

The electronic Annual Report 2017 is published in English, Finnish, and Swedish at www.wartsilareports.com and is also available on Wärtsilä's website, www.wartsila.com.

Interim Reports, Half-year Report and Financial Statements Bulletin 2018

- Interim Report January-March on Tuesday, 24 April 2018
- Half-year Financial Report January-June on Thursday, 19 July 2018
- Interim Report January-September on Tuesday, 23 October 2018

- Financial Statements Bulletin January-December on Wednesday, 30 January 2019

Interim reports, half-year reports and financial statements bulletins are available in English, Finnish, and Swedish on Wärtsilä's website, www.wartsila.com.

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Board of Directors' report

Business model

Wärtsilä provides the marine and energy markets smart technologies and optimised lifecycle services. In the energy industry, Wärtsilä is a global systems integrator offering engine, solar, and storage technologies, as well as software solutions, on an equipment only or turnkey delivery basis. The marine offering consists of power, propulsion, electrical and automation solutions, as well as processing equipment, such as gas systems and environmental solutions. Wärtsilä has the capabilities to combine its marine products into larger integrated systems and solutions. Wärtsilä's portfolio of services ranges from spare parts and technical expertise, to ensuring a maximised installation lifetime, increased efficiency, and guaranteed performance. The company aims at maximising environmental and economic performance by emphasising sustainable, data-driven innovation and total efficiency.

To support its geographically dispersed customer base, Wärtsilä's sales and service network covers more than 200 locations in more than 80 countries around the world. Wärtsilä operates primarily through its subsidiaries and strategic joint ventures. The company's manufacturing model is assembly based, emphasising the importance of developing long-term relationships with its global network of suppliers, which consists of approximately 1,120 key direct suppliers in Europe and Asia, and which represent 93% of Wärtsilä's total supplier spend. Wärtsilä's personnel is made up of approximately 18,000 employees representing over 130 nationalities. By recruiting and retaining the best talent, Wärtsilä is able to be the most valued business partner of its customers, and the employer of choice for current and future employees. Wärtsilä is committed to conducting its business in a responsible manner, and promotes responsible practices throughout its value chain.

Strategy

Wärtsilä's purpose is to enable sustainable societies with smart technology. The demand for clean and flexible energy and the need for efficient and safe transportation are increasingly affecting the way that customers operate. This forms the basis for Wärtsilä's offering of smart solutions to the marine and energy markets. With an integrated portfolio of services, systems and products, the company is well positioned to respond to the demand for energy efficient and innovative solutions. The emphasis is placed on optimising installation performance throughout the lifecycle, using data analytics and artificial intelligence to support customers' business decisions. Wärtsilä's digital transformation will provide increased customer value through a new era of collaboration and knowledge sharing. A strong presence in key markets and a superior global service network support the company's profitable growth ambitions.

With its flexible production and supply chain management, Wärtsilä constantly seeks new ways to maintain high quality and cost efficiency – often in co-operation with customers and leading industrial partners. The investments in R&D and the focus on digitalisation create a strong foundation for securing and strengthening a position at the forefront of market innovation. This innovative culture, together with a constant emphasis on safety, diversity, and high ethical standards, attracts skilled and committed people and creates the basis for a high performing organisation. The implementation of operational excellence ensures that Wärtsilä is easy to do business with, and drives increased productivity and efficiency throughout the lifecycle.

Strategy implementation in 2017

Wärtsilä introduced several new concepts and solutions during 2017, all of which support the realisation of its strategy. These include the launch of the marine hybrid power module Wärtsilä HY, the strengthening of capabilities for remote vessel operation, the introduction of performance-based service concepts, and the expansion into energy storage and related software solutions through the acquisition of Greensmith. The introduction of a gas fuelled version of the Wärtsilä 31 engine in response to the rapidly evolving need for greater flexibility and better efficiency in power generation was another key initiative.

The focus on digitalising Wärtsilä's operations and customer offering continued throughout the year. To support this strategy, the first digital acceleration centre was launched with the aim of developing promising ideas and co-creating them into service concepts and products together with customers and partners. The acquisition of Guidance Marine represents another important

step in Wärtsilä's digital transformation. Being a technology leader in sensor solutions relating to dynamic positioning and other vessel control systems, such as collision avoidance and remote control operations, Guidance Marine enhances Wärtsilä's frontrunner position in intelligent shipping technologies.

To promote a high performance culture, Wärtsilä has continued its leadership development programmes in many areas. During the year, more than 100 company managers attended the Operational Excellence Senior Leadership Academy, which was established in 2016 to ensure that continuous improvement becomes an integrated part of the company culture and way of working. The success of Wärtsilä's first Growth Lab programme, which aims at developing future leaders through action-based learning, resulted in its continuation in 2017. To support the company's objective of fostering an inclusive corporate culture, Wärtsilä's local entities have taken a number of actions related to promoting diversity during the year.

The health and safety of personnel is a priority for Wärtsilä, and for a number of years the company has moved steadily closer to its on-going target of zero lost-time injuries. In 2017, the lost-time injury frequency was 2.48 (2.59), which represents a decrease of 4% compared to the previous year. During the year, Wärtsilä arranged its third global Safety Day under the theme 'Stop and Care', addressing the importance of intervening when unsafe acts are seen. Wärtsilä also launched a Zero Mindset training programme, with the aim of strengthening safety leadership within the company.

Financial targets

Wärtsilä's long-term financial target is to grow faster than global GDP, and to maintain its operating profit margin between 14% at the peak of the cycle and 10% at the trough. Furthermore, the target is to maintain gearing below 0.50, and to pay a dividend of at least 50% of earnings per share over the cycle.

Wärtsilä's performance in 2017 was in line with its long-term targets. Net sales increased by 3%, bringing Wärtsilä's 10-year compound annual growth rate to 2.7%. The global real GDP is estimated to have increased by 3.7% in 2017, giving a 10-year compound annual growth rate of 3.2%. The comparable operating result was 12.0% of net sales. Gearing was 0.10 and the Board of Directors' proposed dividend of EUR 1.38 per share represents 70.8% of operational earnings.

Long-term financial targets

Target	Development in 2017	Development in 2016
Net sales growth faster than global GDP	3% increase	5% decline
Comparable operating result margin between 10% and 14%	12.0%	12.1%
Gearing below 0.50	0.10	0.07
Dividend payment at least 50% of earnings per share over the cycle	70.8% ¹	72.8%

¹ Proposal of the Board of Directors.

The year 2017

Market environment

Steady development in the service markets

Service market activity was solid during 2017. In the marine industry, low freight rates affected merchant customers' appetite for service investments. The offshore service markets remained challenging throughout 2017, although increased oil prices led to some recovery in sentiment towards the end of the year. The cruise segment developed positively, largely due to increased demand for long-term agreements especially in the first part of the year. The demand for power plant related services was steady, supported by the growth in long-term service agreements in Asia.

Power generation markets shifting towards smart and flexible technologies

The demand for Wärtsilä's energy solutions was strong in 2017. The continued decline in renewable energy prices have made solar and wind power especially competitive in many markets and utilities globally are assessing how to integrate such energy sources into their asset base. The first steps are already being taken in the USA, Australia and the Middle East, where market conditions are the most favourable. This, in turn, is increasing the need for flexible power capacity. Demand was also strong in the emerging markets, where countries are investing in new power generation capacity to support economic growth and alleviate power shortages.

Energy Solutions' market share

For the twelve months ending in September, global orders for natural gas and liquid fuel power plants of up to 500 MW amounted to 25.2 GW (24.8 GW at the end of June). Wärtsilä's market share was 15% (14). Global orders include all gas turbine and Wärtsilä orders with prime movers over 5 MW in size.

Vessel contracting supported by improved sentiment

During 2017, 1,037 contracts for new vessels were registered (916, including late contracting). Conditions in the merchant and gas carrier markets improved towards the end of the year along with economic growth. However, large order books and scheduled newbuilding deliveries continue to limit utilisation levels and rates in the gas carrier segment. FSRU contracting was healthy, supported by growing LNG demand from the emerging markets and long-term fundamentals. Contracting activity was on a good level also in the cruise, ferry and Ro-Ro segments due to higher earnings, ageing fleets, planned regulatory developments, and attractive newbuilding prices. Despite some recovery in oil and gas prices towards the end of the year, overcapacity continued to limit newbuild investments in the offshore industry.

In terms of compensated gross tonnage, China and South Korea remain the largest shipbuilding nations with 40% and 27% of all confirmed contracts respectively. Japan and Italy accounted for 8% and 5% of the global total respectively.

Marine Solutions market shares

Wärtsilä is well positioned in key product and solution areas, such as electrical & automation and gas systems. In the medium-speed main engine market, Wärtsilä's share was 47% (43% at the end of the previous quarter). The market share in auxiliary engines was 10% (13% at the end of the previous quarter).

Order intake

Wärtsilä's order intake for the financial period January-December 2017 increased by 15% to EUR 5,644 million (4,927). The book-to-bill ratio was 1.15 (1.03).

Services' order intake increased by 13% to EUR 2,481 million (2,194), thanks to higher demand for long-term service agreements in both the marine and energy markets. The highlight of the year was the strategic performance-based partnership with Carnival Corporation. According to the agreement, Wärtsilä will handle all engine maintenance and monitoring work for 79 Carnival vessels. A strategically interesting order was the contract with Belize Electric Company Limited (BECOL) for a plant upgrade with high quality hydroelectric solutions and technical support, which expands the business of American Hydro, a Wärtsilä company, to Central America.

Energy Solutions' order intake was EUR 1,685 million (1,448), which represents an increase of 16% from the previous year. Asia was the most active region in terms of ordering activity. Demand was particularly good in growing economies, such as Indonesia, and in Bangladesh, where the government is making a strong effort to increase the number of households having access to electricity. In the developed markets, Wärtsilä received orders for two 50 MW power plants from the UK and contracts exceeding 500 MW to support the expansion of renewable energy in the USA. Other noteworthy orders included the first solar PV plant contracts from Burkina Faso and Jordan. In addition to power generation solutions, Wärtsilä received orders for energy storage and software projects in the USA, Singapore, and Portugal, and a turnkey liquefied natural gas (LNG) receiving terminal to be built in Hamina.

Marine Solutions' order intake increased by 15% to EUR 1,478 million (1,285). Expectations for growth in cruise tourism supported demand in the cruise and ferry segment, which represented 31% of Marine Solutions' order intake. Significant orders

included a contract to supply the main engines and exhaust gas cleaning systems to Norwegian Cruise Line's four new generation cruise ships being built by Fincantieri. The gas carriers' share of the order intake was 25%, largely due to improved demand for FSRUs. Orders received within this segment included a contract to equip two new vessels being built for Höegh LNG at the Samsung Heavy Industries and Hyundai Heavy Industries shipyards in Korea, with dual-fuel main engines and regasification technology. In the conventional merchant segment, which represented 23% of order intake, Wärtsilä received a sizeable order for four shuttle tankers from TEEKAY, of which two were included in the order intake for 2017. The vessels will feature a wide range of Wärtsilä's latest technology innovations, which enables them to reach a new level of economic and ecological performance. With regards to the remaining segments, special vessels represented 8% of order intake, navy 7%, and offshore 3%. Other orders accounted for 4%.

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture in South Korea, and in the Wärtsilä Qiyao Diesel Company Ltd and CSSC Wärtsilä Engine Company Ltd. joint ventures in China totalled EUR 70 million (62) during the financial period January-December 2017. The results of these companies are reported as a share of the result of associates and joint ventures.

Order book

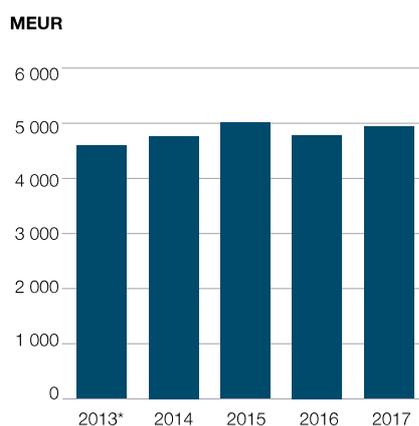
The total order book at the end of the financial period amounted to EUR 5,064 million (4,696), an increase of 8%. The Services order book totalled EUR 1,171 million (999), which is 17% higher than at the same time last year thanks to the increased demand for long-term service agreements. The Energy Solutions order book increased by 11%, totalling EUR 1,871 million (1,680), while the Marine Solutions order book was stable at EUR 2,023 million (2,017).

Net sales

Wärtsilä's net sales for January-December 2017 amounted to EUR 4,923 million (4,801), an increase of 3% over the corresponding period last year. Net sales from the Services business was solid at EUR 2,215 million (2,190). Increased revenues from long-term service agreements offset low volumes from service projects. Net sales for Energy Solutions totalled EUR 1,401 million (943), an increase of 48%. Marine Solutions' net sales decreased by 22% to EUR 1,307 million (1,667). Of the total net sales, Services accounted for 45%, Energy Solutions for 28%, and Marine Solutions for 27%.

Of Wärtsilä's net sales for January-December 2017, approximately 69% was EUR denominated, 18% USD denominated, with the remainder being split between several currencies.

Group net sales development



* Restated, figure includes continuing operations.

Megawatts delivered

	2017	2016	Change %
Energy Solutions engines	3 119	2 189	42%
Marine Solutions engines	1 203	1 649	-27%
Wärtsilä total	4 322	3 838	13%
By joint ventures	601	657	-9%
Engine deliveries total	4 923	4 495	10%

Operating result and profitability

The operating result for the financial period January-December 2017 was EUR 552 million (532), which represents 11.2% of net sales (11.1). The comparable operating result was EUR 590 million (583), or 12.0% of net sales (12.1). Items affecting comparability amounted to EUR 37 million (51), of which EUR 36 million (48) was related to restructuring programmes and EUR 2 million (3) to acquisitions and other costs. The comparable adjusted EBITA was EUR 626 million (618), or 12.7% of net sales (12.9). Purchase price allocation amortisation amounted to EUR 36 million (35).

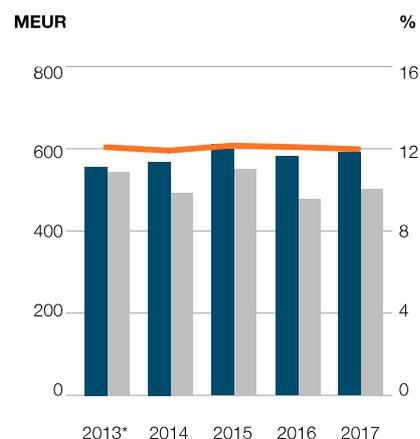
Wärtsilä's operating result was affected by a provision of EUR 40 million (5) related to long-term incentive schemes. The provision covers all three ongoing programmes. Wärtsilä's three-year long-term incentive schemes are tied to the development of the company's share price, and they apply to approximately 100 company executives.

Financial items amounted to EUR -47 million (-53). Financial items include exchange rate losses related to terminated hedges. Net interest totalled EUR -8 million (-11). Profit before taxes amounted to EUR 506 million (479). Taxes amounted to EUR 122 million (123), implying an effective tax rate of 24.2% (25.6). The profit for the financial period amounted to EUR 383 million (357). Earnings per share were 1.95 euro (1.79) and the equity per share was 12.02 euro (11.60). The return on investments (ROI) was 18.9% (17.1), while return on equity (ROE) was 16.3% (15.6).

Measures of profit and items affecting comparability

MEUR	2017	2016
Comparable adjusted EBITA	626	618
Purchase price allocation amortisation	-36	-35
Comparable operating result	590	583
Items affecting comparability:		
Social plan costs	-10	-22
Impairment and write-downs	-18	-22
Transfer costs	-3	
Other restructuring costs	-7	-7
Items affecting comparability, total	-37	-51
Operating result	552	532

Result



■ Comparable operating result
■ Profit before taxes
— Comparable operating result, %

* Restated, figures include continuing operations.

Balance sheet, financing and cash flow

Wärtsilä's operating cash flow totalled EUR 430 million (613) in the financial period January-December 2017. Cash flow was negatively impacted by the increase in receivables. At the end of the period, working capital totalled EUR 591 million (490), a decrease of EUR 66 million from the end of September. Advances received at the end of the period totalled EUR 522 million (516). At the end of September, advances totalled EUR 495 million. Cash and cash equivalents at the end of the period amounted to EUR 379 million (472). Unutilised Committed Credit Facilities totalled EUR 765 million (640), which includes a signed EUR 125 million long-term loan available for disbursement as of 31 December 2017.

Wärtsilä had interest-bearing debt totalling EUR 619 million (629) at the end of December 2017. The total amount of short-term debt maturing within the next 12 months was EUR 102 million. Long-term loans amounted to EUR 517 million. Net interest-bearing debt totalled EUR 234 million (150) and gearing was 0.10 (0.07).

Liquidity preparedness

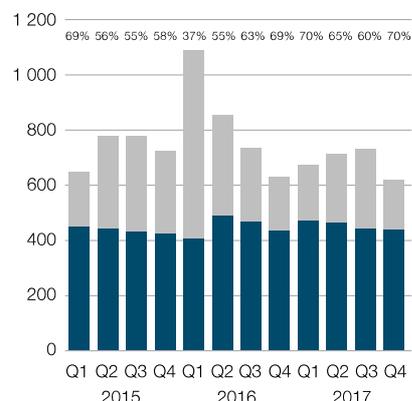
MEUR	31.12.2017	31.12.2016
Cash and cash equivalents	379	472
Unutilised committed credit facilities	765 ¹	640
Liquidity preparedness	1 144	1 112
% of net sales (rolling 12 months)	23	23
Less Commercial Papers	-	-
Liquidity preparedness excluding Commercial Papers	1 144	1 112
% of net sales (rolling 12 months)	23	23

On 31 December 2017, the average maturity of the total loan portfolio was 43 months and the average maturity of the long-term debt was 44 months.

¹ Includes a EUR 125 million EIB loan that remains undrawn.

Loans

MEUR

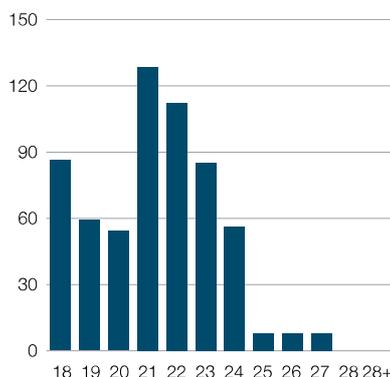


■ Fixed rate loans
■ Floating rate loans

%= Fixed portion of loans (incl. derivatives)

Maturity profiles of long-term loans

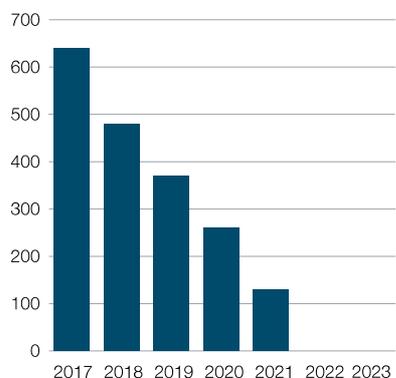
MEUR



■ Annual repayments of long-term loans

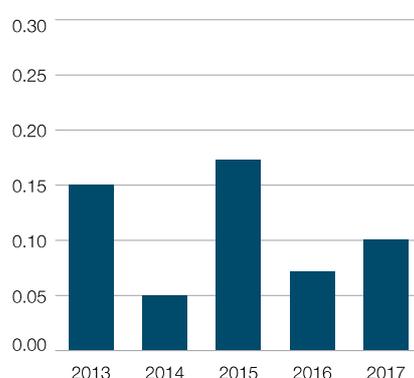
Committed revolving credit facilities (end of period)

MEUR



Gearing

MEUR

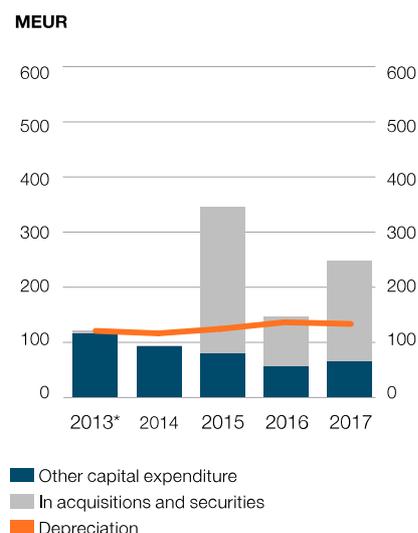


Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 64 million (55) during the financial period January-December 2017. Capital expenditure related to acquisitions and investments in joint ventures totalled EUR 191 million (91). The figure for 2017 includes the acquisitions of Guidance Marine Limited, Puregas Solutions, and Greensmith Energy Management Systems Inc. Depreciation, amortisation, and impairment for the financial period amounted to EUR 134 million (138).

In 2018, capital expenditure related to intangible assets and property, plant, and equipment is expected to be below depreciation and amortisation.

Gross capital expenditure



Strategic projects, acquisitions, and joint ventures

In July, Wärtsilä completed the acquisition of Greensmith Energy Management Systems Inc., a market leader in grid-scale energy storage software and integrated solutions. The acquisition will enable Wärtsilä to rapidly expand its footprint in the global energy storage market, and position itself as a premier energy systems integrator. In 2016, Greensmith's revenues were USD 32 million with over 40 employees. The integration of Greensmith is proceeding according to plan.

In August, Wärtsilä and ABB signed an agreement to expand their co-operation in lifecycle service offerings. ABB granted Wärtsilä Authorized Service Provider status for the standard maintenance of ABB turbochargers installed with Wärtsilä 4-stroke engines.

In September, Wärtsilä added wave power technology to its capabilities as an energy systems integrator through its partnership with AW-Energy. The co-operation is based on AW-Energy's patented and certified wave energy technology and Wärtsilä's global project execution, services, and integration capabilities.

In October, Wärtsilä announced the acquisitions of Puregas Solutions and Guidance Marine. Puregas Solutions is a Sweden based leader in turnkey biogas upgrading solutions. The acquisition complements Wärtsilä's existing position in the biogas liquefaction market. In 2016, Puregas Solutions had approximately 40 employees and a turnover of SEK 200 million. Guidance Marine Limited, a UK based privately owned company, is a technology leader in the marine industry for sensor solutions relating to dynamic positioning and other vessel control systems. The acquisition enhances Wärtsilä's capabilities in the areas of situational awareness and near-field measurement, both essential for more intelligent vessel navigation. In 2016, Guidance Marine employed more than 50 people worldwide and had a turnover of GBP 6 million.

In December, Wärtsilä and GTT, the designer of cryogenic membrane containment solutions for liquefied gases, finalised a co-operation agreement to explore potential business opportunities in the marine sector in relation to LNG storage, fuel gas supply systems, and associated services that will benefit both shipyards and vessel owners. Wärtsilä also signed a 10-year service partnership agreement with Winterthur Gas & Diesel Ltd. (WinGD). According to the agreement, Wärtsilä will continue to provide extensive customer support and services to the end users of WinGD's products, to WinGD, as well as to licensed engine builders. The agreement includes service work conducted for any 2-stroke engines delivered under the Wärtsilä, Sulzer, and WinGD brands.

Towards the end of the year, Wärtsilä announced the opening of the CSSC Wartsila Electrical & Automation Co Ltd (CWE&A) joint venture between Wärtsilä and China State Shipbuilding Corporation (CSSC), and the acquisition of Trident B.V., a Netherlands based company specialised in underwater ship maintenance, inspection, and repair services. The acquisition of Trident enables Wärtsilä to become a leading global operator in the underwater services market.

Research and development, product launches

Wärtsilä continued to invest in product and solution innovation during 2017. The R&D related expenditure totalled EUR 141 million (131), which represents 2.9% of net sales (2.7). The key focus areas included digitalisation, efficiency improvement, fuel flexibility, and the reduction of environmental impact.

In March, Wärtsilä launched SmartPredict, a system designed to provide safer and more efficient operations for all vessel types with the help of advanced motion prediction.

In May, Wärtsilä introduced the Wärtsilä HY, a fully integrated hybrid power module combining engines, an energy storage system, and power electronics optimised to work together through a newly developed energy management system. Wärtsilä also announced its decision to invest in expanding its capability to service turbochargers at more than 20 service workshops globally. With this investment, Wärtsilä is able to offer customers global turbocharger services coupled with engine know-how in flexible co-operation with other Wärtsilä service centres. Eniram, a Wärtsilä company, launched an update to the SkyLight performance monitoring system, adding nautical maps, weather layers, and route importation to make predictive analysis and proactive planning more available.

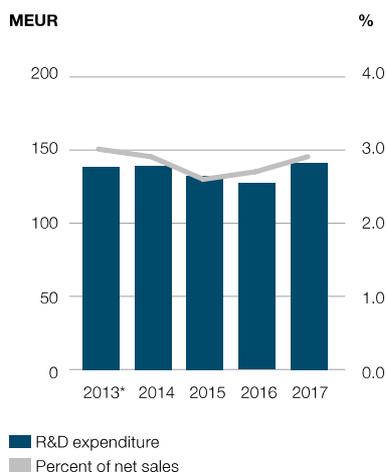
In August, Wärtsilä successfully tested its automatic wireless induction charging system on a hybrid powered coastal ferry, owned by Norled, one of Norway's largest ferry operators. Wärtsilä also took a further step in developing its Smart Marine capabilities by successfully testing the remote control of ship operations in collaboration with the U.S. based operator Gulfmark Offshore. The testing involved driving a vessel through a sequence of manoeuvres using a combination of dynamic positioning and manual joystick control via standard bandwidth onboard satellite communication.

Product launches in November included EnergoFlow, a solution for reducing the power losses that occur in a ship's propeller slipstream by providing an optimised inflow, thereby bringing cost savings in the form of fuel efficiency. A gas-fuelled version of the successful Wärtsilä 31 engine was also launched. The defining feature of the Wärtsilä 31SG is its ability to achieve simple-cycle efficiency levels in excess of 50%, which enables reduced emissions and offers the potential for considerable cost savings to power producers. Another benefit is the provision of increased flexibility, which enables a rapid response to continuously changing load patterns, especially in systems with a notable share of solar and wind energy.

In December, Wärtsilä introduced its Voyage Emissions Reduction system, which reduces environmental impact and increases oil tanker revenues by effectively eliminating the problem of volatile organic compound emissions during voyages, as well as Linesafe, a new simplified bearing design that enhances flexibility and lowers lifecycle costs for customers.

At the end of the year, the European Investment Bank (EIB) and Wärtsilä signed a EUR 125 million loan agreement to support the research and development of more environmentally friendly and efficient ship engines and power plants. This fifth loan to support Wärtsilä's Research, Development and Innovation (RDI) will further solidify the successful co-operation with the EIB, which has resulted in tangible improvements in European engine technology since the first loan was signed in 2003.

Research and development expenditure



* Restated, figures include continuing operations.

Restructuring programmes

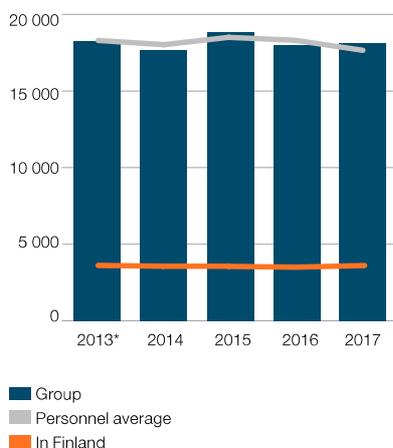
Wärtsilä’s aim is to continuously pursue more cost-efficient ways of operating and align its operations to market conditions. The incremental savings from local actions within Marine Solutions and restructuring measures initiated in previous years amounted to approximately EUR 55 million in 2017, while the related costs totalled EUR 36 million. The remaining savings of EUR 15-20 million are expected to materialise in 2018.

Personnel

Wärtsilä had 18,065 (18,011) employees at the end of December 2017. On average, the number of personnel for January-December 2017 totalled 17,866 (18,332). Services employed 10,624 (10,567) people, Energy Solutions 1,038 (903), and Marine Solutions 5,845 (6,074).

Of Wärtsilä’s total number of employees, 20% (19) were located in Finland and 38% (39) elsewhere in Europe. Personnel employed in Asia represented 27% (28) of the total, personnel in the Americas 11% (11), and personnel in other countries 4% (4).

Personnel



* Restated, figures include continuing operations.

Non-financial report

Increasing environmental awareness is resulting in fundamental changes in both the marine and energy industries. Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources, and to support its customers in preparing for new regulatory requirements. R&D efforts continue to focus on the development of advanced environmental technologies and solutions. Wärtsilä emphasises responsible business conduct, and is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment and anti-corruption.

Responsible business conduct

The Wärtsilä Code of Conduct defines common rules for all employees, and provides guidance on Wärtsilä's approach to responsible business practices. The Code of Conduct is complemented by group-wide policies, including the Quality, Environmental, Health and Safety Policy, the corporate policy on equal opportunities and fair employment practices, as well as policies related to anti-corruption, compliance reporting, and sourcing and purchasing.

Wärtsilä takes an active approach to the application of the Code of Conduct and promotes its implementation through the effective communication of its contents to its employees. Wärtsilä monitors the application of the Code internally to ensure understanding and commitment throughout the organisation. At the end of 2017, 16,137 employees, covering 89% of the total number of employees, had participated in the Code of Conduct training programme.

Suppliers and business partners are an integral part of the total value chain of the products and services of Wärtsilä. They are expected to conduct their businesses in compliance with the same high legal and ethical standards and business practices as Wärtsilä. Information on Wärtsilä's requirements is included in supplier agreement templates.

Environmental performance

Wärtsilä's main contribution to improved environmental performance lies in providing its customers with reliable and safe technologies and services, which, in addition to enabling environmental compliance, support the sustainable development of the marine and energy industries. Wärtsilä's products and solutions are designed to operate for up to 30 years. Therefore, focusing R&D efforts on improving the product or system level performance is crucial, as is adopting a lifecycle approach to performance optimisation. In addition to improving the environmental performance of its product and solutions, Wärtsilä also continuously monitors the impact caused by its own activities and targets reduced energy consumption in its facilities.

Wärtsilä's Quality, Environmental, Health and Safety Policy sets principles for managing the environmental impacts of Wärtsilä's products and services. The potential risks related to environmental matters and climate change are in the areas of regulatory emission restrictions and changes in customer attitudes to using combustion engines and fossil fuels. Risks are managed by focusing on product efficiency improvement and emission reduction in R&D activities, as well as by developing a wide product offering, including technologies related to waste reduction, noise abatement, and effluent and ballast water treatment. During 2017, R&D investments totalled EUR 141 million, which represents 2.9% of net sales. The majority of these investments targeted improved environmental performance. Significant achievements related to sustainable innovation included the introduction of Wärtsilä 31SG, a gas fuelled version of the highly efficient Wärtsilä 31 engine for the energy industry, and the introduction of the Wärtsilä HY, the marine sector's first integrated hybrid power module.

Social and employee matters

Wärtsilä is a responsible employer, offering employees a workplace where openness, respect, trust, equal opportunities, and scope for personal development prevail. Wärtsilä is a signatory of the UN Global Compact initiative and supports the work-related rights defined by the International Labour Organization (ILO). Wärtsilä's corporate policy on equal opportunities and fair employment practices creates a common framework for employee practices in all Wärtsilä companies. People management processes, tools, and ways of working are developed to ensure consistency across national and organisational boundaries. Wärtsilä has a global job grading system and rewarding principles to ensure transparency and fairness for all employees, which are followed by all the entities in Wärtsilä globally.

The objective of Wärtsilä's people management strategy is to ensure that the businesses have the required resources, and skilled and motivated people at their disposal. In order to develop their competences, employees are offered a wide variety of internal training courses, including topics like technology, health and safety, language and culture, project management, environment, security, and leadership. The average number of learning days was 2.2 per employee in 2017.

Wärtsilä aims at offering employees and contractors a hazard-free working environment, and at minimising the health and safety risks associated with the use of its products and services. The company's occupational health and safety principles are defined in the Code of Conduct, the quality, environmental, health and safety (QEHS) policy, and in the directive on environment, health, and safety (EHS). Wärtsilä's units are required to have a management system in place that conforms to the QEHS Policy and the EHS directive. In addition to the management system, Wärtsilä companies apply occupational health and safety programmes as required by local legislation. Wärtsilä's aim is to reach a long-term goal of zero injuries. In 2017, the corporate lost-time injury frequency rate was 2.48 (2.59). To further emphasise the importance of safety within the organisation, Wärtsilä started the ZeroMindset leaders' occupational health and safety programme during the year.

Respect for human rights

Wärtsilä supports and respects basic human values as outlined in the UN's Universal Declaration of Human Rights. Wärtsilä is also a signatory of the UN Global Compact and is thereby committed to its principles with respect to human rights, labour, the environment and anti-corruption. No employee is allowed to take any action that violates these human rights principles, either directly or indirectly. Wärtsilä does not accept the use of forced labour or child labour in any form. Human and Labour rights are a part of the Code of Conduct training material, and are included in Wärtsilä's policy on equal opportunities and fair employment practices as well as in the company's supplier handbook.

Anti-corruption and bribery matters

Wärtsilä's Code of Conduct, Anti-Corruption Policy, and Broker Directive expressly prohibit the company and its employees from offering or accepting any kind of benefit considered a bribe and from taking actions that could give rise to a conflict of interest or breach of loyalty. The instructions make it compulsory to comply with anti-corruption laws of all the countries in which Wärtsilä does or intends to do business and urge the reporting of any cases of corruption and bribery.

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. Therefore, full compliance with a stringent anti-corruption regime is required of all employees. An extensive training programme is in place for personnel on anti-corruption principles and applicable legislation as well as the relevant company policies and procedures. By the end of 2017, 92% of Wärtsilä's employees have participated in anti-corruption trainings. Employees are encouraged to provide feedback and communicate suspected misconduct to line management or directly to the Compliance, Legal Affairs or Internal Audit function. Wärtsilä also has a dedicated tool, which was taken into use during 2017, through which employees can report infringements.

Shares and shareholders

During January-December 2017, the volume of trades on Nasdaq Helsinki was 89,407,327 shares, equivalent to a turnover of EUR 4,800 million. Wärtsilä's shares are also traded on alternative exchanges, such as Turquoise, BATS CXE, and BATS BXE. The total trading volume on these alternative exchanges was 60,463,921 shares.

Shares on Nasdaq Helsinki

31.12.2017		Number of shares and votes			Number of shares traded 1-12/2017
WRT1V		197 241 130			89 407 327
1.1. - 31.12.2017		High	Low	Average ¹	Close
Share price		62.30	41.90	53.70	52.60
¹ Trade-weighted average price					
Market capitalisation		31.12.2017			31.12.2016
MEUR		10 375			8 418
Foreign shareholders		31.12.2017			31.12.2016
%		55.9			55.0

Flagging notifications

During the financial period January-December 2017, BlackRock Inc. informed Wärtsilä of the changes in ownership summarised in the table below. The total number of shares held by BlackRock, Inc. remained above 5% of Wärtsilä's share capital and total votes throughout the period.

Release date	Transaction date	Shareholder	Threshold	Direct holding, %	Total holding, %
23.11.2017	22.11.2017	BlackRock Investment Management (UK) Limited	Above 5%	4.63	5.05
30.11.2017	29.11.2017	BlackRock Investment Management (UK) Limited	Above 5%	5.10	5.47

Decisions taken by the Annual General Meeting

Wärtsilä's Annual General Meeting held on 2 March 2017 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 2016.

The Annual General Meeting decided that the Board of Directors shall have eight members. The following were elected to the Board: Maarit Aarni-Sirviö, Kaj-Gustaf Bergh, Karin Falk, Johan Forssell, Tom Johnstone, Mikael Lilius, Risto Murto and Markus Rauramo.

The audit firm PricewaterhouseCoopers Oy was elected as the auditor of the Company for the year 2017.

Dividend distribution

The Annual General Meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.30 per share in two instalments. The first instalment of EUR 0.65 per share was paid on 13 March 2017, and the second instalment of EUR 0.65 per share was paid on 21 September 2017.

Authorisation to repurchase and distribute the Company's own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 19,000,000 of the Company's own shares. The authorisation to repurchase the Company's own shares shall be valid until the close of the next Annual General Meeting, however no longer than for 18 months from the authorisation of the shareholders' meeting.

The Board of Directors was authorised to resolve to distribute a maximum of 19,000,000 of the Company's own shares. The authorisation for the Board of Directors to distribute the Company's own shares shall be valid for three years from the authorisation of the shareholders' meeting and it cancels the authorisation given by the General Meeting on 3 March 2016. The Board of Directors was authorised to resolve to whom and in which order the Company's own shares will be distributed. The Board of Directors was authorised to decide on the distribution of the Company's own shares otherwise than in proportion to the existing pre-emptive right of the shareholders to purchase the Company's own shares.

Organisation of the Board of Directors

The Board of Directors of Wärtsilä Corporation elected Mikael Lilius as its chairman and Tom Johnstone as the deputy chairman. The Board decided to establish an Audit Committee, a Nomination Committee and a Remuneration Committee. The Board appointed from among its members the following members to the Committees:

Audit Committee: Chairman Markus Rauramo, Maarit Aarni-Sirviö, Risto Murto

Nomination Committee: Chairman Mikael Lilius, Kaj-Gustaf Bergh, Johan Forssell, Risto Murto

Remuneration Committee: Chairman Mikael Lilius, Maarit Aarni-Sirviö, Tom Johnstone

Risks and business uncertainties

In the Services business, slow economic growth and political instability in specific regions are the main risks for demand development. The challenging conditions in the offshore and conventional merchant segments are also seen as a potential risk.

In the power generation markets, fragile economic growth and slow decision-making continue to be the primary risks for demand development. Geopolitical tensions and significant currency fluctuations can result in investment decisions being postponed in certain countries. Low oil prices have a similar impact in the oil and gas producing countries. Price pressure resulting from the prevailing competitive environment remains a risk.

Economic and political uncertainty, as well as new emerging technologies and innovations, will challenge current business models and trade patterns in the marine industry. Reduced capital expenditure from oil companies continues to limit offshore investments, and offshore production is facing increasing competition from low cost onshore and shale production. In addition, increasing energy efficiency and the substitution of other energy sources, will challenge crude oil demand growth. The enforcement of environmental regulations and potential new regulations remain as a source of uncertainty. Climate change continues to create pressure for reducing greenhouse gas emissions within the shipping industry.

Wärtsilä places great emphasis on the integration of cyber and physical systems to ensure a holistic security solution is in place for its internal operations and customer offerings. The Wärtsilä cyber security team conducts operations, governance and compliance activities in line with IEC62443 and ISO 27k. Activities include cyber assurance, risk management, detection, securing the software development lifecycle, training, endpoint protection, network security, and cyber advisory services.

The Group is a defendant in a number of legal cases that have arisen out of, or are incidental to, the ordinary course of its business. These lawsuits mainly concern issues such as contractual and other liability, labour relations, property damage, and regulatory matters. The Group receives from time to time claims of different amounts and with varying degrees of substantiation. There is currently one unusually sizeable claim. It is the Group's policy to provide for amounts related to the claims, as well as for litigation and arbitration matters, when an unfavourable outcome is probable, and the amount of the loss can be reasonably estimated.

The [Risks and risk management](#) section of this Annual Report contains a more detailed description of Wärtsilä's risks and business uncertainties.

Prospects for 2018

The demand for Wärtsilä's services and solutions in 2018 is expected to improve somewhat from the previous year. Demand by business area is anticipated to be as follows:

- Good in Services thanks to growth opportunities in selected regions and segments.
- Good in Energy Solutions. The global shift towards renewable energy sources and increasing electricity demand in the emerging markets support the need for distributed and flexible power capacity, including gas-fired generation, energy storage, and smart integration technology.
- Solid in Marine Solutions. Despite improving sentiment, the marine market environment remains challenging due to overcapacity and lack of financing.

Wärtsilä's current order book for 2018 deliveries is EUR 3,171 million (3,143), which mainly comprises equipment deliveries. Services' business is largely transactional, with only around 30% of annual net sales coming from the order book.

Dividend proposal

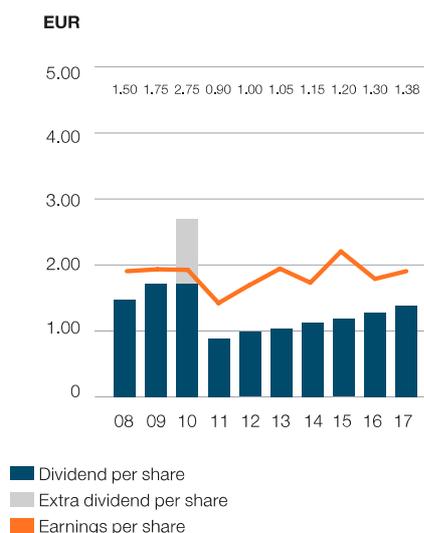
The Board of Directors proposes that a dividend of EUR 1.38 per share be paid for the financial year 2017. The parent company's distributable funds total EUR 1,002,092,268.56, which includes EUR 161,085,555.55 in net profit for the year. There are 197,241,130 shares with dividend rights. The dividend will be paid in two instalments.

The first instalment of 0.69 euro per share will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date 12 March 2018. The payment date proposed by the Board for this instalment is 19 March 2018.

The second instalment of the dividend shall be paid in September 2018. If the Board's proposal concerning a share issue without payment ('share split') is approved, the second instalment will be divided between one old and two new shares so that EUR 0.23 will be paid for each share. If the general meeting does not approve the share issue without payment proposed by the Board, the second instalment will be paid in the same manner as the first, i.e. EUR 0.69 per share.

The second dividend instalment will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the dividend record day, which, together with the payment day, shall be decided by the Board of Directors in its meeting scheduled for 18 September 2018. The dividend record day for the second instalment as per the current rules of the Finnish book-entry system would be 20 September 2018 and the dividend payment day 27 September 2018.

Dividend



The free share issue approved by Wäertsilä Corporation's Annual General Meeting on 3 March 2011 increased the total number of Wäertsilä shares to 197,241,130. Earnings per share in comparison periods 2008–2010 have been adjusted to reflect the increased number of shares.

Five years in figures

MEUR	Restated				
	2017	2016	2015	2014	2013*
Net sales	4 923	4 801	5 029	4 779	4 607
of which outside Finland	% 97.7	97.5	97.8	98.9	99.0
Exports from Finland	1 954	1 804	1 936	2 280	2 306
Personnel on average	17 866	18 332	18 565	18 042	18 339
of which in Finland	3 521	3 482	3 580	3 582	3 662
Order book	5 064	4 696	4 882	4 530	4 311
From the consolidated statement of income					
Depreciation, amortisation and impairment	134	138	124	115	120
Share of result of associates and joint ventures	13	14	17	26	28
Comparable operating result	590	583	612	569	557
as a percentage of net sales	% 12.0	12.1	12.2	11.9	12.1
Operating result	552	532	587	522	537
as a percentage of net sales	% 11.2	11.1	11.7	10.9	11.7
Comparable adjusted EBITA	626	618	643	594	589
as a percentage of net sales	% 12.7	12.9	12.8	12.4	12.8
Financial income and expenses	-47	-53	-34	-28	-19
Net income from other investments	-	-	-	-	25
Profit before taxes	506	479	553	494	544
as a percentage of net sales	% 10.3	10.0	11.0	10.3	11.8
Profit for the financial period from the continuing operations	383	357	429	389	425
Profit/loss for the financial period from the discontinued operations	-	-	22	-37	-31
Net profit for the financial period	383	357	451	351	393
as a percentage of net sales	% 7.8	7.4	9.0	7.4	8.5
From the consolidated statement of financial position					
Non-current assets	2 277	2 116	2 215	1 884	1 935
Current assets	3 331	3 275	3 374	3 294	3 274
Assets held for sale	-	-	-	102	-
Total equity attributable to equity holders of the parent company	2 371	2 288	2 201	1 960	1 844
Non-controlling interests	24	34	41	45	40
Interest-bearing debt	619	629	724	666	665
Non-interest-bearing liabilities	2 593	2 441	2 623	2 554	2 660
Liabilities directly attributable to assets held for sale	-	-	-	55	-
Total equity and liabilities	5 607	5 391	5 589	5 280	5 209
From the consolidated statement of cash flows					
Cash flow from operating activities	430	613	255	452	578
Cash flow from investing activities	-235	-126	-288	-71	-79
Cash flow from financing activities	-278	-339	-210	-210	-324
Gross capital expenditure	255	146	346	101	134
as a percentage of net sales	% 5.2	3.0	6.9	2.1	2.9
Research and development expenditure	141	131	132	139	138
as a percentage of net sales	% 2.9	2.7	2.6	2.9	3.0
Dividends paid	272**	256	237	227	207
Financial ratios					
Earnings per share (EPS), basic and diluted	EUR 1.95	1.79	2.25	1.76	1.98

Dividend per share	EUR	1.38**	1.30	1.20	1.15	1.05
Dividend per earnings	%	70.8**	72.8	53.3	65.4	53.0
Interest coverage		11.8	18.6	15.9	15.9	18.1
Return on investment (ROI)	%	-	-	-	18.7	21.2
Return on investment (ROI), continuing operations	%	18.9	17.1	21.0	20.3	22.6
Return on equity (ROE)	%	-	-	-	18.0	21.4
Return on equity (ROE), continuing operations	%	16.3	15.6	20.2	20.0	23.1
Solvency ratio	%	47.1	47.6	44.6	43.5	43.9
Gearing		0.10	0.07	0.17	0.05	0.15
Equity per share	EUR	12.02	11.60	11.16	9.94	9.35
Working capital (WCAP)	EUR	591	490	543	251	313

* Figures related to the statement of income in the comparison period 2013 have been restated during year 2014 due to the two-stroke business being classified as discontinued operations.

** Proposal of the Board of Directors.

Quarterly figures

MEUR	10-12/ 2017	7-9/ 2017	4-6/ 2017	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016
Order intake								
Services	646	550	599	686	565	522	527	580
Energy Solutions	501	418	361	405	501	330	304	312
Marine Solutions	366	387	403	322	258	287	362	379
Total	1 514	1 354	1 363	1 413	1 324	1 139	1 194	1 271
Order book at the end of the financial period								
Services	1 171	1 194	1 193	1 187	999	1 031	1 048	1 017
Energy Solutions	1 871	1 839	1 764	1 847	1 680	1 676	1 547	1 491
Marine Solutions	2 023	2 042	2 108	2 062	2 017	2 317	2 488	2 595
Total	5 064	5 075	5 065	5 096	4 696	5 024	5 083	5 103
Net sales								
Services	654	526	546	490	636	512	542	500
Energy Solutions	425	324	412	239	414	177	220	132
Marine Solutions	366	328	334	279	509	390	433	335
Total	1 445	1 178	1 292	1 007	1 559	1 079	1 196	967
Share of result of associates and joint ventures	6	3	3	1	5	2	4	3
Comparable adjusted EBITA	254	144	134	94	262	132	131	93
as a percentage of net sales	17.5	12.2	10.4	9.4	16.8	12.3	10.9	9.6
Depreciation, amortisation and impairment	-42	-30	-30	-33	-34	-31	-42	-31
Purchase price allocation amortisation	-10	-9	-9	-9	-9	-9	-9	-9

Comparable operating result	244	135	126	86	253	123	122	84
as a percentage of net sales	16.9	11.4	9.7	8.5	16.3	11.4	10.2	8.7
Items affecting comparability, total	-19	-4	-8	-6	-22	-2	-26	-1
Operating result	225	130	117	80	231	122	96	83
as a percentage of net sales	15.6	11.1	9.1	7.9	14.8	11.3	8.0	8.6
Financial income and expenses	-10	-17	-14	-5	-5	-7	-38	-3
Profit before taxes	215	114	103	74	226	115	58	80
Income taxes	-48	-29	-27	-17	-55	-31	-17	-20
Profit for the financial period	167	85	76	57	172	84	41	60
Earnings per share (EPS), basic and diluted, EUR	0.86	0.43	0.38	0.28	0.87	0.43	0.19	0.30
Gross capital expenditure	79	156	11	9	20	55	60	11
Investments in securities and acquisitions	45	145		1		42	49	
Cash flow from operating activities	276	150	2	2	235	189	202	-13
Working capital (WCAP) at the end of the financial period	591	658	680	580	490	540	602	709
Personnel at the end of the financial period								
Services	10 624	10 528	10 455	10 464	10 567	10 648	10 575	10 331
Energy Solutions	1 038	1 017	928	913	903	920	945	958
Marine Solutions	5 845	5 774	5 861	5 920	6 074	6 305	6 443	6 681
Other	559	540	539	533	467	464	465	457
Total	18 065	17 859	17 783	17 832	18 011	18 337	18 428	18 427

Calculations of financial ratios

Return on investment (ROI)

Profit before taxes + interest and other financial expenses

Total equity and liabilities – non-interest-bearing liabilities – provisions, average over the financial period x 100

Return on equity (ROE)

Profit for the financial period

Equity, average over the financial period x 100

Interest coverage

Profit before taxes + depreciation, amortisation and impairment + interest and other financial expenses

Interest and other financial expenses

Solvency ratio

Equity

Total equity and liabilities – advances received

x 100

Gearing

Interest-bearing liabilities – cash and cash equivalents

Equity

Earnings per share (EPS), basic and diluted

Profit for the financial period attributable to equity holders of the parent company

Adjusted number of shares, average over the financial period

Equity per share

Equity attributable to equity holders of the parent company

Adjusted number of shares at the end of the financial period

Dividend per share

Dividends paid for the financial period

Adjusted number of shares at the end of the financial period

Dividend per earnings

Dividend per share

Earnings per share (EPS), basic and diluted

x 100

Effective dividend yield

Dividend per share

Adjusted share price at the end of the financial period

x 100

Price/earnings (P/E)

Adjusted share price at the end of the financial period

Earnings per share (EPS), basic and diluted

Price/carrying amount per share (P/BV)

Adjusted share price at the end of the financial period

Equity per share

Working capital (WCAP)

(Inventories + trade receivables + current tax receivables + other non-interest-bearing receivables)

– (trade payables + advances received + pension obligations + provisions + current tax liabilities + other non-interest-bearing liabilities – dividend payable)

Comparable adjusted EBITA

Operating result – items affecting comparability – purchase price allocation amortisation

Comparable operating result

Operating result – items affecting comparability

Items affecting comparability

Items affecting comparability are related to restructuring measures and one-time charges for events or activities, which are not part of the normal business operations

Financial statements

Consolidated financial statements

Consolidated statement of income

MEUR	2017	2016	Note
Net sales	4 923	4 801	<u>1</u> <u>4</u>
Change in inventories of finished goods & work in progress	28	-134	
Work performed by the Group and capitalised	12	2	
Other operating income	60	55	<u>5</u>
Material and services	-2 558	-2 353	<u>6</u>
Employee benefit expenses	-1 214	-1 159	<u>7</u>
Depreciation, amortisation and impairment	-134	-138	<u>8</u>
Other operating expenses	-577	-556	<u>9</u>
Share of result of associates and joint ventures	13	14	<u>15</u>
Operating result	552	532	
as a percentage of net sales	11.2	11.1	
Financial income	12	19	<u>10</u>
Financial expenses	-59	-72	<u>10</u>
Profit before taxes	506	479	
Income taxes	-122	-123	<u>11</u>
Profit for the financial period	383	357	
Attributable to:			
equity holders of the parent company	384	352	<u>12</u>
non-controlling interests	-1	4	
	383	357	
Earnings per share attributable to equity holders of the parent company (basic and diluted):			
Earnings per share (EPS), basic and diluted, EUR	1.95	1.79	

The notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

MEUR	2017	2016
Profit for the financial period	383	357
Other comprehensive income, net of taxes:		
Items that will not be reclassified to the statement of income		
Remeasurements of defined benefit liabilities	7	-12
Tax on items that will not be reclassified to the statement of income		3
Total items that will not be reclassified to the statement of income	7	-9
Items that may be reclassified subsequently to the statement of income		
Exchange rate differences on translating foreign operations		
for equity holders of the parent company	-74	-52
for non-controlling interests	-2	-1
Associates and joint ventures, share of other comprehensive income	-1	1
Cash flow hedges		
measured at fair value	1	-16
transferred to the statement of income	36	58
Tax on items that may be reclassified to the statement of income		
Cash flow hedges		
measured at fair value	-1	4
transferred to the statement of income	-8	-14
Total items that may be reclassified to the statement of income	-50	-21
Other comprehensive income for the financial period, net of taxes	-43	-30
Total comprehensive income for the financial period	341	327
Total comprehensive income attributable to:		
equity holders of the parent company	344	323
non-controlling interests	-3	3
	341	327

The notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

MEUR	31.12.2017	31.12.2016	Note
Assets			
Non-current assets			
Goodwill	1 237	1 112	<u>13</u>
Intangible assets	340	322	<u>13</u>
Property, plant and equipment	338	394	<u>14</u>
Investment properties	11	12	<u>14</u>
Investments in associates and joint ventures	83	84	<u>15</u>
Other investments	13	15	<u>16</u>
Interest-bearing investments	5	6	<u>16</u>
Deferred tax assets	123	141	<u>20</u>
Trade receivables	109	13	<u>16</u>
Other receivables	18	18	<u>18</u>
Total non-current assets	2 277	2 116	
Current assets			
Inventories	1 051	1 042	<u>17</u>
Trade receivables	1 307	1 220	<u>16</u>
Current tax receivables	53	46	
Other receivables	539	494	<u>18</u>
Cash and cash equivalents	379	472	<u>19</u>
Total current assets	3 331	3 275	
Total assets	5 607	5 391	
Equity and liabilities			
Equity			
Share capital	336	336	<u>22</u>
Share premium	61	61	<u>22</u>
Translation differences	-133	-57	<u>22</u>
Fair value reserve	-10	-39	<u>22</u>
Remeasurements of defined benefit liabilities	-38	-45	<u>21</u>
Retained earnings	2 156	2 032	
Total equity attributable to equity holders of the parent company	2 371	2 288	
Non-controlling interests	24	34	
Total equity	2 396	2 321	

Liabilities				
Non-current liabilities				
Interest-bearing debt	517	520	<u>16</u>	<u>24</u>
Deferred tax liabilities	102	93		<u>20</u>
Pension obligations	154	168		<u>21</u>
Provisions	52	44		<u>23</u>
Advances received	64	58		
Other liabilities	1	1		<u>25</u>
Total non-current liabilities	889	884		
Current liabilities				
Interest-bearing debt	102	108	<u>16</u>	<u>24</u>
Provisions	209	206		<u>23</u>
Advances received	459	458		
Trade payables	539	502	<u>16</u>	<u>24</u>
Current tax liabilities	83	78		
Other liabilities	931	833		<u>25</u>
Total current liabilities	2 323	2 186		
Total liabilities	3 212	3 070		
Total equity and liabilities	5 607	5 391		

The notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

MEUR	2017	2016	Note
Cash flow from operating activities:			
Profit for the financial period	383	357	
Adjustments for:			
Depreciation, amortisation and impairment	134	138	<u>8</u>
Financial income and expenses	47	53	<u>10</u>
Gains and losses on sale of intangible assets and property, plant and equipment and other changes	-17	-6	
Share of result of associates and joint ventures	-13	-14	<u>15</u>
Income taxes	122	123	<u>11</u>
Cash flow before changes in working capital	657	650	

Changes in working capital:			
Receivables, non-interest-bearing, increase (-) / decrease (+)	-264	89	
Inventories, increase (-) / decrease (+)	-27	162	<u>17</u>
Liabilities, non-interest-bearing, increase (+) / decrease (-)	189	-167	
Changes in working capital	-102	84	
Cash flow from operating activities before financial items and taxes	555	734	
Financial items and taxes:			
Interest income	1		
Interest expenses	-6	-13	
Other financial income and expenses	-2	19	
Income taxes paid	-119	-127	
Financial items and paid taxes	-126	-121	
Cash flow from operating activities	430	613	
Cash flow from investing activities:			
Acquisitions	-191	-81	<u>2</u>
Investments in associates and joint ventures		-9	<u>15</u>
Investments in property, plant and equipment and intangible assets	-64	-55	<u>13</u> <u>14</u>
Proceeds from sale of property, plant and equipment and intangible assets	17	18	
Proceeds from sale of other investments	2	1	<u>16</u>
Loan receivables, increase (-) / decrease (+), and other changes	1		
Cash flow from investing activities	-235	-126	
Cash flow after investing activities	195	487	
Cash flow from financing activities:			
Proceeds from non-current debt	90	131	
Repayments and other changes in non-current debt	-101	-91	<u>24</u>
Loan receivables, increase (-) / decrease (+)	2	-4	
Current loans, increase (+) / decrease (-)	-5	-125	
Dividends paid	-264	-250	
Cash flow from financing activities	-278	-339	
Change in cash and cash equivalents, increase (+) / decrease (-)	-83	148	
Cash and cash equivalents at the beginning of the financial period	472	334	
Exchange rate changes	-10	-9	
Cash and cash equivalents at the end of the financial period	379	472	

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

MEUR	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 1 January 2016	336	61	-6	-70	-36	1 916	2 201	41	2 242
Translation differences			-51				-51	-1	-52
Cash flow hedges									
net change in fair value, net of taxes				-13			-13		-13
transferred to the statement of income, net of taxes				44			44		44
Defined benefit plans					-9		-9		-9
Other comprehensive income			-51	31	-9		-29	-1	-30
Profit for the financial period						352	352	4	357
Total comprehensive income for the financial period			-51	31	-9	352	323	3	327
Total transactions with the owners of the company									
dividends paid						-237	-237	-11	-247
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	2 288	34	2 321

MEUR	Total equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Translation difference	Fair value reserve	Remeasurements of defined benefit liabilities	Retained earnings	Total		
Equity on 31 December 2016	336	61	-57	-39	-45	2 032	2 288	34	2 321
Restatement due to IFRS 9						-3	-3		-3
Equity on 1 January 2017	336	61	-57	-39	-45	2 028	2 284	34	2 318
Translation differences			-76				-76	-2	-78
Cash flow hedges									
transferred to the statement of income, net of taxes				28			28		28
Defined benefit plans					7		7		7
Other comprehensive income			-76	28	7		-41	-2	-43
Profit for the financial period						384	384	-1	383
Total comprehensive income for the financial period			-76	28	7	384	343	-3	340
Total transactions with the owners of the company									
dividends paid						-256	-256	-6	-263
Equity on 31 December 2017	336	61	-133	-10	-38	2 156	2 371	24	2 396

Additional information on share capital, share premium, translation difference and fair value reserve is presented in Note 22. Equity.

Accounting principles for the consolidated financial statements

Basic information

Wärtsilä Corporation is a Finnish listed company organised under the laws of Finland and domiciled in Helsinki. The address of its registered office is John Stenbergin ranta 2, 00530 Helsinki. Wärtsilä Corporation is the parent company in Wärtsilä Group.

Wärtsilä is a global leader in smart technologies and complete lifecycle solutions for the marine and energy markets. By emphasising sustainable innovation, total efficiency and data analytics, Wärtsilä maximises the environmental and economic performance of the vessels and power plants of its customers.

In 2017, Wärtsilä's net sales totalled EUR 4.9 billion with approximately 18,000 employees. The company has operations in over 200 locations in more than 80 countries around the world. Wärtsilä is listed on Nasdaq Helsinki.

These consolidated financial statements were authorised for release by the Board of Directors of Wärtsilä Corporation on 30 January 2018, after which, in accordance with the Finnish Corporate Act, the shareholders have a right to approve or reject the financial statements in the Annual General Meeting. The Annual General Meeting also has a possibility to decide upon changes in the financial statements.

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force on 31 December 2017. International Financial Reporting Standards refer to the standards, and their interpretations, approved for application in the EU in accordance with the procedures stipulated in the EU's regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation.

Reporting is based on the historical cost convention. Exceptions are the financial assets and liabilities at fair value through the statement of income, hedged items under fair value hedging, and the cash-settled share-based payment transactions which are measured at fair value. The figures are in millions of euros.

IFRS amendments

In 2017, the Group has adopted the following new and amended standards issued by the IASB.

New **IFRS 9 Financial Instruments** replaces the existing guidance in IAS 39 Financial Instruments - Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including new general hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

Adoption of IFRS 9 led to some changes in the hedging processes and presentation. The new model aligns the accounting treatment with risk management activities and allows net hedging, from which the gains or losses will be presented on a separate line in the consolidated statement of income. Regarding impairment of financial assets, the change mainly concerns trade receivables where the credit losses will be recognised based on the expected lifetime credit losses.

The restatement impact on equity and trade receivables was EUR -3 million. Figures in the comparison period have not been restated.

On the date of initial application, 1 January 2017, the financial instruments of the Group were as follows, with any reclassifications noted.

Reclassifications of financial instruments on adoption of IFRS 9	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount in MEUR IAS 39	Carrying amount in MEUR IFRS 9	Change
Non-current financial assets					
Other investments (shares)	Available-for-sale financial assets	Fair value through the statement of income	15	15	
Interest-bearing investments	Loans and receivables	Fair value through the statement of income	6	6	
Other receivables	Loans and receivables	Amortised cost	6	6	
Current financial assets					
Trade receivables	Loans and receivables	Amortised cost	1 220	1 214	-6
Investments in commercial papers	Loans and receivables	Amortised cost			
Other receivables	Loans and receivables	Amortised cost	10	10	
Derivatives included in hedge accounting	Cash flow hedges (at fair value through other comprehensive income)	Fair value through other comprehensive income	9	9	
Derivatives, no hedge accounting	Financial assets at fair value through the statement of income	Fair value through the statement of income			
Trade receivables for sale	Loans and receivables	Fair value through the statement of income		3	3
Cash and cash equivalents	Loans and receivables	Fair value through the statement of income	472	472	
Current financial liabilities					
Derivatives included in hedge accounting	Cash flow hedges (at fair value through other comprehensive income)	Fair value through other comprehensive income	31	31	
Derivatives, no hedge accounting	Financial liabilities at fair value through the statement of income	Fair value through the statement of income	13	13	
Other liabilities	Financial liabilities measured at amortised cost	Amortised cost	6	6	

Amendments to **IAS 7 Statement of Cash Flows** - Disclosure Initiative clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities (separately from changes in other assets and liabilities). The amendments had an impact on the notes of the consolidated financial statements.

Amendments to **IAS 12 Income Taxes** - Recognition of Deferred Tax Assets for Unrealised Losses clarify the requirements on recognition of deferred tax assets for debt instruments measured at fair value. The amendments had no impact on consolidated financial statements.

Management judgement and use of estimates

The preparation of the financial statements in accordance with the IFRS requires management to make judgements, estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent assets and liabilities and the recognition of income and expenses in the statement of income. Although these estimates and assumptions are based on management's best knowledge of current events and actions, actual results may differ from the estimates. The most important items in the consolidated statements, which require management's judgements and which may include uncertainty, consist of the following:

Sales revenue is typically recognised when the product or service has been delivered, its value has been determined, and it is probable that the trade receivable will be collected. These estimates affect the amount of sales revenue recognised. Revenue from long-term projects and long-term operations and maintenance agreements is recognised according to their percentage of completion when the profit on the project or agreement can be reliably determined. The percentage of completion and the profit are based on management's estimates as to the realisation of the project or agreement. These estimates are reviewed regularly. Recognised sales revenue and costs recorded are adjusted during the project when assumptions concerning the outcome of the entire project are updated. Changes in assumptions relate to changes in the project's or agreement's schedule, scope of supply, technology, costs, and any other relevant factors.

Warranty provisions are recorded on the recognition of sales revenue. The provision is based on the accumulated experience of the level of warranty needed to manage future and current cost claims. Products can contain new and complex technology that can affect warranty estimates with the result that earlier recognised provisions are not always sufficient.

The Group is a defendant in several legal cases arising from its business operations. A provision for a court case is recorded when an unfavourable result is probable and the loss can be determined with reasonable certainty. The final result can differ from these estimates.

The recoverable amounts of goodwill are determined for all cash-generating units annually, or more often if there is an indication of an impairment, where its value in use is determined. The value in use is determined using estimates of future market development, such as growth and profitability, as well as other significant factors. The most important factors underlying such estimates are the net sales growth in the market area, the operating margin, the useful life of the assets, future investment needs and the discount rate. Changes in these assumptions can significantly affect the expected future cash flows.

Estimates of pension obligations regarding defined benefit plans are based on actuarial estimates of factors including future salary increases, discount rates and return on plan assets. Changes in these assumptions can significantly affect the Group's pension obligations and pension costs.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the parent company Wartsilä Corporation and all subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or in which Wartsilä is otherwise in control on the reporting date. Being in control means the power to govern the financial and operating policies of the company to obtain benefits from its activities.

Acquired and established companies are accounted for using the purchase method of accounting. Accordingly, the purchase price and the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. In the acquisition of additional interest, where the Group already has control, the non-controlling interest is measured either at fair value or at the non-controlling interests' proportionate share of the identifiable net assets. The difference between the purchase price, possible equity belonging to the non-controlling interests and the acquired company's net identifiable assets, liabilities and contingent liabilities measured at fair value is goodwill. Goodwill is tested for impairment at least annually. The purchase price includes the consideration paid, measured at fair value. The consideration does not include transaction costs, which are recognised in the statement of income. The transaction costs are expensed in the same financial period in which they occur, except the costs resulting from issued debt or equity instruments.

Any contingent consideration (additional purchase price) related to the combination of businesses is measured at fair value on the date of acquisition. It is classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair

value on the last day of each financial period, and the resulting loss or gain is recognised through profit or loss. Contingent consideration classified as equity is not remeasured.

For the acquisitions which occurred before 1 January 2010, the accounting principles valid at the time of the acquisition have been applied.

The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control, and disposed subsidiaries until the control ends. All intragroup transactions, dividend distributions, receivables and liabilities as well as unrealised margins are eliminated in the consolidated financial statements. In the consolidated statements of income and comprehensive income, non-controlling interests have been separated from the profit and the total comprehensive income for the financial period. In the consolidated statement of financial position, non-controlling interests are shown as a separate item under equity.

Associated companies and joint ventures

Companies, in which the Group has a significant influence are consolidated as associated companies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net asset of the joint venture. Joint control is established by contractual agreement.

Associated companies and joint ventures are included in the consolidated financial statements using the equity method from the date the Group's significant influence or joint control commences until the date it ceases. The Group's share of the associated company's or joint venture's profit for the financial period are shown as a separate item before the Group's operating result, on the line Share of result of associates and joint ventures. The Group's share of the associated company's or joint venture's changes recorded in other comprehensive income is recorded in the Group's other comprehensive income. Wäertsilä's proportion of the associated company's or joint venture's post-acquisition accumulated equity is included in the Group's equity. If the Group's share of the associated company's or joint venture's losses exceeds its interest in the company, the carrying amount is written down to zero. After this, losses are only recognised if the Group has incurred obligations from the associated company or joint venture.

Assets held for sale and discontinued operations

Non-current assets and assets and liabilities related to discontinued operations are classified as held for sale if their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Classification as held for sale requires that the following criteria are met; the sale is highly probable, the asset is available for immediate sale in its present condition subject to usual and customary terms, the management is committed to the sale, and the sale is expected to be completed within one year from the date of classification.

Prior to classification as held for sale, the assets or assets and liabilities related to a disposal group in question are measured according to the respective IFRS standards. From the date of classification, non-current assets held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and the recognition of depreciation and amortization is discontinued. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The result from the discontinued operations is shown separately in the consolidated statement of income and the comparison figures are restated accordingly. Non-current assets held for sale are presented in the statement of financial position separately from other items. The comparison figures for the statement of financial position are not restated.

Translating the transactions in foreign currencies

The items included in the financial statements are initially recognised in the functional currency, which is defined for each group company based on its primary economic environment. The presentation currency of the consolidated financial statements is the euro, which is also the functional and presentation currency of Wäertsilä Corporation.

Foreign subsidiaries

The income and expenses for statements of income and statements of comprehensive income of foreign subsidiaries are translated into euros at the quarterly average exchange rates. Statements of financial position are translated into euros at the exchange rates prevailing at the end of the financial period. The translation of the profit for the financial period and other comprehensive income using different exchange rates in the statement of comprehensive income and the statement of financial position causes translation differences, which are recognised in equity and in other comprehensive income as change. Translation differences of foreign subsidiaries' acquisition cost eliminations and post-acquisition profits and losses are recognised in other comprehensive income and are presented as a separate item in equity. The goodwill generated in the acquisition of foreign entities and their fair value adjustments of assets and liabilities are considered as assets and liabilities of foreign entities, which are translated into euros using the exchange rates prevailing at the end of the financial period.

Transactions in foreign currencies

Transactions denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Receivables and liabilities are translated at the exchange rate prevailing at the end of the financial period. Exchange rate gains and losses related to trade receivables and liabilities are reported on the applicable line in the statement of income and are included in operating result. Exchange rate differences related to financial assets and financial liabilities are reported as financial items in the statement of income, except exchange rate differences related to non-current debt that is part of the Group's net investment in a subsidiary. Those are recognised in other comprehensive income and reported in translation differences in equity.

Net sales and revenue recognition

Sales are presented net of indirect sales taxes and discounts. Sales are recognised when the significant risks and rewards connected with ownership have been transferred to the buyer. This typically means that revenue recognition occurs when a product or service is delivered to the customer in accordance with the terms of delivery.

Revenue from long-term construction contracts and long-term operating and maintenance agreements is recognised in accordance with the percentage of completion method when the outcome of the contract can be estimated reliably. The percentage of completion is usually based on the ratio of costs incurred to total estimated costs to date for long-term construction contracts. In some gas solution projects where the key value drivers are engineering, procurement and project management, and where the manufacturing is outsourced, the percentage of completion is assessed with reference to surveys of work performed. For long-term operating and maintenance agreements the percentage of completion is calculated on the basis of the proportion of the contracted services performed. When the final outcome of a long-term project cannot be reliably determined, the costs arising from the project are expensed in the same financial period in which they occur, but the revenue from the project is recorded only to the extent that the company will receive an amount corresponding to actual costs. Any losses due to projects are expensed immediately.

Employee benefits

Pension and other long-term employee benefits

Pension plans

Group companies in different countries have various pension plans in accordance with local conditions and practices. These pension plans are classified either as defined contribution or defined benefit plans. The fixed contributions to the defined contribution plans are expensed in the year to which they relate. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employee benefits. All other plans are defined benefit plans.

Defined benefit plans are funded through contributions to pension funds or pension insurance companies. Defined benefit plans may be unfunded or wholly or partly funded. The present value of the obligation arising from the defined benefit plans is determined per each plan using actuarial techniques, the projected unit credit method. The Group recognises the defined benefit obligation net of fair value of the plan assets at the end of the financial period.

Actuarial gains and losses and other remeasurements of the net defined benefit obligation are recognised immediately in the statement of other comprehensive income. Current service cost is the present value of the post employment benefit, which is earned by the employees during the year. The Group determines the net interest expense on the net defined benefit plan by

applying the discount rate used to measure the defined benefit obligation. Service cost is recognised in employee benefit expenses and the net interest in financial expenses. The defined benefit plans are calculated by qualified actuaries.

Other long-term employee benefits

In addition to defined benefit plans, Wäertsilä has other long-term employee benefits. They are presented separately from the defined benefit plans. Similarly to the accounting for a defined benefit plan, for any other long-term benefit the Group recognises a liability for the obligation net of the fair value of plan assets, if any. Changes in other long-term employee benefits are recognised in the statement of income.

Share-based payments

The company's bonus scheme, which is tied to the price development of the company's share during a pre-determined timeframe, is measured at the fair value of the share on the reporting date and reported in the statement of income for the term-to-maturity of the bonus scheme. An upper limit is set for the bonus. When a bonus scheme ends and the employment requirement is fulfilled, the bonus is settled in cash.

Goodwill and other intangible assets

Goodwill

Goodwill is the difference between the aggregate of the acquisition-date fair value of the consideration transferred and the acquirer's share of the company's net identifiable assets and liabilities measured at fair value on the acquisition date. The consideration transferred is measured at fair value, including also the acquirer's previously held equity interest.

Research and development costs

Research costs are expensed in the financial period during which they occur. Development costs are capitalised when it is probable that the development project will generate future economic benefits for the Group and when the related criteria, including commercial and technological feasibility, have been met. These projects involve the development of new or significantly improved products or production processes. Earlier expensed development costs are not capitalised.

Capitalised development costs are measured at cost less accumulated amortisations and impairment. Capitalised development costs are amortised and the cost of buildings, machinery and facilities for development depreciated on a straight-line basis over their expected useful lives, 5-10 years. Amortisations are started when the asset is finished and can be taken into use. Before that, the asset is tested for impairment annually. Grants received for research and development are reported as other operating income. Grants related to capitalised development costs are netted with the costs occurred before the capitalisation.

Other intangible assets

Other intangible assets are recorded at cost if the cost is reliably measurable and the future economic benefits for the Group are probable. Wäertsilä's other intangible assets include patents, licenses, software, customer relations and other intellectual property rights that can be transferred to a third party. These are measured at cost, except for intangible assets identified in connection with acquisitions, which are measured at the fair value at the acquisition date. The cost of intangible assets comprises the purchase price and all costs that can be directly attributed to preparing an asset for its intended use.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives. Intangible assets, for which the time limit for the right of use is agreed, are amortised over the life of the contract. Intangible assets identified in connection with acquisitions are amortised over their delivery times or estimated useful lives.

The general guidelines for scheduled amortisation are:

- Software 3-7 years
- Development expenses 5-10 years
- Other intangible assets 5-20 years

The estimated useful lives and the residual values are reviewed at least at the end of each financial period, and if they differ significantly from previous estimates, amortisation periods are adjusted accordingly. Amortisation of intangible assets is stopped when an item is classified as held for sale.

A gain or loss arising from the sale of intangible assets is recognised in other operating income or other operating expenses in the statement of income.

Property, plant and equipment

Property, plant and equipment acquired by the Group are measured in the statement of financial position at cost less accumulated depreciation and impairment losses. The cost of an asset includes costs directly attributed to preparing an asset for its intended use. Grants received are reported as a reduction in costs. The property, plant and equipment of acquired subsidiaries are measured at their fair value at the acquisition date. The borrowing costs that are directly attributable to the asset acquisition, construction or production and to completion of the asset for its intended use or sale requiring necessarily a considerable length of time will be capitalised in the statement of financial position as part of the cost of the asset. Other than directly attributable borrowing costs are expensed in the period in which they are incurred.

Subsequent expenditure is included in the cost of an asset only if the future economic benefits for the Group are probable and the costs are reliably measurable. Expenditure related to regular, extensive inspections and maintenance is treated as an investment, capitalised and depreciated during the useful life. All other expenditure such as ordinary maintenance and repairs is recognised in the statement of income as an expense as incurred.

Depreciation is based on the following estimated useful lives:

- Buildings 10-40 years
- Machinery and equipment 5-20 years
- Other tangible assets 3-10 years

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated, as its useful life is considered as infinite. The estimated useful lives and the residual values are reviewed at least at the end of each financial period, and if they differ significantly from previous estimates, depreciation periods are adjusted accordingly. Depreciation of property, plant and equipment is stopped when an item is classified as held for sale.

A gain or loss arising from the sale of property, plant and equipment is recognised in other operating income or other operating expenses in the statement of income.

Impairment of intangible assets and property, plant and equipment

The carrying amounts of assets are reviewed regularly for signs of possible impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is estimated annually also for the goodwill whether or not there are signs of impairment. In order to define a possible impairment, the Group's assets are divided up into the smallest possible cash-generating units which are mainly independent of other units and the cash flows of which are separately identifiable and to a large extent independent of the cash flows of other similar units.

An impairment loss is recorded when the carrying amount of an asset is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is based on the expected discounted future net cash flows resulting from the asset or cash-generating unit. A pre-tax rate which reflects the markets' position on the time value of money and asset-specific risks is used as the discount rate.

An impairment loss is recognised immediately in the statement of income. In connection with the recognition of the impairment loss, the useful life of the amortisable/depreciable asset is reassessed. An earlier impairment loss recognised for an asset other than goodwill is reversed if the estimates used to determine the recoverable amount change. However, reversal of impairment shall not exceed the asset's carrying amount less impairment loss. An impairment loss recognised for goodwill is not reversed under any circumstances.

Determination of the fair value of assets acquired through business combinations

In significant business combinations, the Group has used external advisors when estimating the fair values of property, plant and equipment and intangible assets. For property, plant and equipment, comparisons have been made of the market prices of similar assets, and the depreciation of the acquired assets due to aging, wear and other similar factors has been estimated. The fair value measurement of intangible assets is based on estimates of the future cash flows associated with the assets. The acquired identifiable intangible assets include typically technology, customer relationships, and trademarks.

Investment properties

Properties that are not used in the Group's operating activities or that are held to earn rental income or for capital appreciation, or both, are classified as investment properties. Investment properties are presented in the statement of financial position on a separate line in non-current assets and measured at cost less accumulated depreciations and impairment. A gain or loss arising from the sale of investment properties is recognised in other operating income or other operating expenses in the statement of income.

Leases

Leases related to property, plant and equipment in which all material rewards and risks of ownership have been transferred to the Group are classified as finance leases. Assets acquired under a finance lease are recognised as property, plant and equipment at the lower of the fair value of the leased asset and the estimated present value of the underlying lease payments. The corresponding rental obligation, net of finance charge, is included in interest-bearing debt with the interest element of the finance charge being recognised in the statement of income over the lease period. Assets acquired under a finance lease are depreciated over their estimated useful lives in accordance with the same principles that apply to the Group's other similar property, plant and equipment. The shorter alternative of the following is selected: either the useful life of the leased asset or the lease term.

Leases in which the rewards and risks of ownership have not been transferred to the Group are classified as operating leases. Rental payments under operating leases are charged in the statement of income on a straight-line basis over the lease term.

Inventories

Inventories are carried at the lower of cost and net realisable value. Costs include allocated purchasing and manufacturing overhead costs in addition to direct manufacturing costs. Inventory valuation is primarily based on the weighted average cost.

Financial assets and liabilities

Financial assets

Financial assets are classified into the following categories: financial assets measured at amortised cost, financial assets at fair value through the statement of income and financial assets at fair value through other comprehensive income. Financial assets are classified according to their cash flow characteristics and the business model they are managed in and accounted for at settlement date.

Financial assets at amortised cost

Trade receivables, other receivables and investments in commercial papers are recognised at their anticipated realisable value, which is the original invoiced amount less an estimated valuation allowance for impairment. The Group assesses possible increase in the credit risk for financial assets measured at amortised cost at the end of each reporting period individually. The methodology applied depends on whether there has been a significant increase in credit risk. The loss allowance is estimated at an amount equal to 12-month expected credit losses at the current reporting date, if there has not been significant increase in credit risk.

For trade receivables and receivables from revenue recognition in accordance with percentage of completion method, simplified approach is used and the loss allowance is measured at the estimate of the lifetime expected credit losses. Receivables from revenue recognition in accordance with percentage of completion method should be covered with advance payments collected from customers so recognising credit losses based on the lifetime expected loss amounts mainly concerns trade receivables. Examples of events giving rise to impairment include a debtor's serious financial problems, a debtor's probable bankruptcy or other financial arrangement.

The Group may sell undivided interests in trade receivables on an ongoing and one-time basis to other lending institutions. Financial assets sold under these arrangements are excluded from trade receivables in the Group's consolidated statement of financial position at the time of payment from acquirer, considering that substantially all risks and rewards have been transferred. If acquirer has not settled the payment to the extent that the ownership, risk and control over the receivable have been substantially transferred then such financial assets sold are re-recognised in the consolidated statement of financial position at the end of the reporting period.

Financial assets at fair value through the statement of income

Interest-bearing investments are measured at fair value through the statement of income and they include loans and receivables, which are non-derivative financial assets that have fixed or determinable payments and that are not quoted on active markets. They arise when the Group provides a loan or delivers products and services directly to a debtor. They are included in non-current receivables, unless they have a maturity of less than 12 months from the reporting date. Such items are classified as current receivables.

Other investments include Wartsilä's investments in other companies (both listed and unlisted shares) and they are classified as financial assets at fair value through the statement of income. The fair value for listed shares is based on their market value. Gains and losses from fair valuation and disposal and impairments of shares that are attributable to operating activities are included in operating income, while gains and losses from fair valuation and disposal and impairments of other shares are included in financial income and expenses.

The category includes also derivatives that do not qualify for hedge accounting and are not financial guarantee agreements, non-derivative financial assets, cash and cash equivalents as well as other financial assets recognised at fair value through the statement of income, which are financial assets held for trading.

Derivatives are initially recognised at cost in the statement of financial position and are thereafter measured at their fair value at the end of each reporting period. Realised and unrealised gains and losses from changes in fair values are recognised in the statement of income in the period in which they have arisen. Derivatives held for trading, as well as financial assets maturing within 12 months after the end of financial period, are included in current assets. Non-derivative financial assets are included in non-current assets unless the Group intends to dispose of the investment within 12 months from the reporting date.

Cash comprise cash in hand, deposits held at call with banks and similar investments. Cash equivalents comprise short-term highly liquid investments that are subject to only minor fluctuations in value. Cash equivalents have a maturity of up to three months on the date of acquisition. Credit accounts related to Group cash pool accounts are included in current financial liabilities.

Financial assets at fair value through other comprehensive income

Derivatives are measured at fair value and gains and losses from fair value measurement are treated as determined by the purpose of the derivatives. The effects on results of changes in the value of derivatives that are eligible for hedge accounting and that are effective hedging instruments are presented consistent with the hedged item.

Derivatives eligible for hedge accounting are classified as financial assets at fair value through other comprehensive income. For derivatives included in hedge accounting, the Group documents the relationship between each hedging instrument and the hedged asset upon entering into a hedging arrangement, along with the risk management objective and the strategy applied. Through this process, the hedging instrument is linked to the relevant assets and liabilities, projected business transactions or binding contracts. The Group also documents its ongoing assessment of the effectiveness of the hedge as regards the relationship between a change in the derivative's fair value and a change in the value of the hedged cash flows or transactions.

Financial liabilities

The Group's financial liabilities are classified either into financial liabilities recognised at amortised cost or financial liabilities recognised at fair value through the statement of income. Financial liabilities are classified as current unless the Group has the unconditional right to defer the payment of the debt to at least 12 months from the end of the financial period. Financial liabilities (or parts thereof) are only derecognised once the debt has extinguished, i.e. once the contractually specified obligation is discharged, cancelled or expires.

Financial liabilities recognised at amortised cost

The loans raised by the Group are included in financial liabilities recognised at amortised cost. They are measured at their initial recognition at fair value using the effective interest rate method. After the initial recognition, loans are measured at amortised cost. Interests on loans are expensed through the statement of income over the maturity of the debt using the effective interest rate method.

Financial liabilities recognised at fair value through the statement of income

In the Wäertsilä Group, financial liabilities recognised at fair value through the statement of income include derivatives that are not eligible for hedge accounting. Realised and unrealised gains and losses from changes in fair values of derivatives are recognised in the statement of income in the period in which they have arisen.

Derivatives and hedge accounting

Derivatives are measured at fair value. Gains and losses from fair value measurement are treated as determined by the purpose of the derivatives. The effects on results of changes in the value of derivatives that are eligible for hedge accounting and that are effective hedging instruments are presented consistently with the hedged item. The effective portion of the change in the fair value is deferred into the cash flow reserve through OCI and will be recognised in profit or loss when the hedged item affects profit or loss. Impact from ineffective hedging instruments is recognised in financial income and expenses immediately.

For derivatives eligible for hedge accounting, the Group documents the relationship between each hedging instrument and the hedged asset upon entering into a hedging arrangement, along with the risk management objective and the strategy applied. Through this process, the hedging instrument is linked to the relevant assets and liabilities, projected business transactions or binding contracts. The Group also documents its ongoing assessment of the effectiveness of the hedge regarding the relationship between a change in the derivative's fair value and a change in the value of the hedged cash flows or transactions.

Hedging of sales and purchases

Wäertsilä hedges its sales and purchases in foreign currencies with foreign exchange derivatives or currency options. Certain foreign exchange derivatives are eligible for hedge accounting. Changes in the fair value of derivative contracts designated to hedge future cash flows are recognised in other comprehensive income and presented in the fair value reserve in equity, provided that the hedging is effective. The ineffective portion is immediately recognised in the statement of income in the financial period. Changes in fair value due to interest rate differences are recognised in the statement of income. Any gain or loss in the fair value reserve accumulated through other comprehensive income is reported as an adjustment to net sales or material and services in the same period as any transactions relating to the hedged obligations or estimates. Currency forwards are measured at forward rates at the end of the financial period and currency options at their market value at the end of the financial period.

Derivatives not included in hedge accounting

For derivatives not included in hedge accounting, changes in fair value are immediately recognised in financial income or expenses in the statement of income. For example, interest rate swap hedges belong to this group. The fair value of interest rate swaps is calculated by discounting the future cash flows.

Fair value hierarchy

Financial instruments measured at fair value are classified according to the following fair value hierarchy: instruments measured using quoted prices in active markets (level 1), instruments measured using inputs other than quoted prices included in level 1 observable either directly or indirectly (level 2), and instruments measured using inputs that are not based on observable market data (level 3). Financial instruments measured at fair value include financial assets and liabilities at fair value through the statement of income.

Provisions and contingent liabilities

Provisions are recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions can arise, for example, from warranties, environmental risks, litigation, foreseeable losses on projects and restructuring costs. The amount to be recognised as provisions corresponds to the management's best estimate of the expenses that will be necessary to meet the existing obligation at the end of the financial period.

Estimated future warranty costs relating to products delivered are recorded as provisions. The amount of future warranty costs is based on accumulated experience.

Provisions for restructuring costs are made once the restructuring plan has been approved and the implementation started or the personnel concerned have been informed of the terms. The plan must indicate which activities and personnel will be affected and the timing and cost of implementation.

Contingent liabilities are possible obligations resulting from previous events, the existence of which will only be ascertained once the uncertain event that is beyond the Group's control materialises. Existing obligations that are not likely to require the fulfilment of a payment obligation or the amount of which cannot be reliably determined are also considered contingent liabilities. Contingent liabilities are presented in the notes.

Income taxes

The statement of income includes taxes on the Group's consolidated taxable income for the financial period in accordance with local tax regulations, tax adjustments for previous financial periods and changes in deferred taxes. Tax effects related to transactions recognised through the statement of income and other events are recognised in the statement of income. Tax effects related to transactions or other events to be presented as components of other comprehensive income or directly in equity are also recognised, respectively, in other comprehensive income or directly in equity.

Deferred tax liabilities and assets are calculated on temporary differences arising from the difference between the tax basis of assets and liabilities and the carrying values using the enacted tax rates at the end of the financial period. The statement of financial position includes deferred tax liabilities in their entirety and deferred tax assets at their estimated probable amount.

Dividends

The dividend proposed by the Board of Directors is deducted from distributable equity when approved by the company's Annual General Meeting.

Adoption of new and updated IFRS standards

In 2018, the Group will adopt the following new and amended standards and interpretations issued by the IASB.

New **IFRS 15 Revenue from Contracts with Customers** (effective for financial periods beginning on or after 1 January 2018): IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. It replaces existing revenue guidance, including IAS 18 Revenue, and IAS 11 Construction Contracts. IFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer. When applying the new standard, the entity needs to assess whether the revenue will be recognised over time or at a point in time. The effect of variable considerations and the time value of money on transaction price need to be assessed. In addition, IFRS 15 requires quantitative and qualitative disclosures about the entity's contracts with customers, performance obligations in the contracts and significant judgements to be made. The Group is adopting the new standard on the required effective date using the full retrospective method.

In product delivery, short-term service orders, and short-term projects the management expects to identify mostly one performance obligation in a contract under the new standard, and revenue is typically recognised at a point in time when transfer of control occurs.

In long-term service agreements, and long-term projects the management expects to recognise mostly one performance obligation in a contract, and revenue is recognised at a point in time. When applying IFRS 15, the revenue recognition method is changed in two business lines: long-term service and maintenance agreements, and gas solutions related construction contracts.

In long-term service and maintenance agreements the customer value is created over time during the contract period. The revenue recognition method changes from an output method (percentage of completion based on the proportion of the contracted services performed) to an input method (percentage of completion based on costs incurred). Due to the standard maintenance schedules, this typically delays the revenue recognition in a contract. In construction contracts related to gas solutions, the key value drivers are engineering, procurement, and project management, and the manufacturing is usually outsourced. The revenue recognition method changes from an output method (percentage of completion based on the progress measured by surveys of work performed) to an input method (percentage of completion based on costs incurred).

The two business lines together represent, depending on the year, approximately 10-15% of the group's net sales. However, the impact on Group net sales is in large extent mitigated with wide portfolio of projects and agreements in different stages of lifetime. The combined restatement impact on equity on 1 January 2017 is EUR -10 million.

In project business the contracts usually have clauses for liquidated damages, which were previously accounted as provisions for cost when their probability was more likely than not to occur. Liquidated damages are treated as variable consideration in IFRS 15, and they are required to be estimated at contract inception. According to analyses, this will reduce the Group's recognised revenue to some extent as the penalties accounted as costs are deducted from sales according to IFRS 15.

Amendments to **IFRS 2 Share-based Payment*** - Clarification and Measurement of Share-based Payment Transactions (effective for financial periods beginning on or after 1 January 2018). The amendments are intended to eliminate the diversity in the classification and measurement of particular share-based payment transactions (accounting for cash-settled share-based payment transactions that include a performance condition, share-based payments in which the manner of settlement is contingent on future events, share-based payments settled net of tax withholdings and modification of share-based payment transactions from cash-settled to equity-settled). The amendments will have no impact on consolidated financial statements.

Amendments to **IFRS 4 Insurance Contracts** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial periods beginning on or after 1 January 2018): Applying IFRS 9 Financial Instruments with IFRS 4. The amendments bring certainty to insurers on whether, and how, they should apply IFRS 9 before they apply the forthcoming insurance contracts standard. The amendments will have no impact on consolidated financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration* (effective for financial periods beginning on or after 1 January 2018). The interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions IAS 21. The guidance aims to reduce diversity in practice. The interpretation will have no impact on consolidated financial statements.

The following new standard already issued by the IASB will be adopted in 2018 or later, depending on the effective date.

New **IFRS 16 Leases** (effective for financial periods beginning on or after 1 January 2019): IFRS 16 changes the accounting for operating leases by requiring companies to recognise lease assets and lease liabilities in the balance sheet, initially measured at the present value of unavoidable future lease payments, and to depreciate those assets and interest on lease liabilities in the statement of income over the lease term. Whether a contract contains a lease is determined on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

When adapting IFRS 16, the portion of the lease payments currently included in other operating expenses in the consolidated statement of income will be transferred to depreciations and amortisations and the interest portion to financial expenses. The standard will affect primarily the accounting for the Group's operating leases increasing the balance sheet totals and leading to some changes in key figures. At the reporting date, the Group has non-cancellable operating lease commitments of 182 MEUR, see note 28. The Group is assessing the impact of IFRS 16.

At this stage, the Group does not intend to adopt the standard before its effective date.

* Not yet endorsed for use by the European Union as of 31 December 2017.

Notes to the consolidated financial statements

1. Segment information

Wärtsilä's highest operative decision maker (CODM, Chief Operating Decision Maker) is the President and CEO with the support of the Board of Management and in some cases the Board of Directors. The President and CEO assesses the Group's profitability, financial position and development as a whole. Consequently to the management approach by the Chief Operating Decision Maker, Wärtsilä is one operating segment.

The operating segment is subdivided into two mutually supportive market areas, Marine Solutions and Energy Solutions, which are supported by Services. Wärtsilä provides advanced technologies and lifecycle solutions to its marine and energy market customers. These technologies and solutions are sold and delivered globally by the same Wärtsilä companies. Manufacturing supplies products to both Energy Solutions and Marine Solutions from the same assembly lines, allowing for synergies in the production process and in research and development. Also sourcing function supports both market areas and Services. Due to the business model, integrated operations, and governance structure, the Group is reported as one segment. However, to enable better understanding of the different market areas' development and the business cycles, Wärtsilä discloses the net sales by market areas and Services.

Net sales by market areas and Services

MEUR	2017	2016
Energy Solutions	1 401	943
Marine Solutions	1 307	1 667
Services	2 215	2 190
Total	4 923	4 801

As geographical information, Wärtsilä reports the geographical areas Finland, Other European countries, Asia, the Americas and other continents. In the geographical information net sales are split by customer's destination and non-current assets by origin.

During the financial period 1 January - 31 December 2017 and 1 January - 31 December 2016 Wärtsilä did not have any individual significant customers or countries.

Geographical information

MEUR	2017		2016	
	Net sales	Non-current assets*	Net sales	Non-current assets*
Finland	115	249	121	264
Other European countries	1 412	1 378	1 460	1 388
Asia	1 948	112	1 774	134
The Americas	1 113	265	1 039	131
Other	335	5	407	6
Total	4 923	2 009	4 801	1 923

* Non-current assets consist of goodwill, intangible assets, property, plant and equipment, investment properties and investments in associates and joint ventures.

2. Acquisitions

Acquisitions 2017

Greensmith Energy Management Systems Inc.

On 3 July 2017, Wärtsilä acquired 100% of Greensmith Energy Management Systems Inc.

Greensmith Energy Management Systems Inc. is a market leader in grid-scale energy storage software and integrated solutions. The acquisition of Greensmith enables Wärtsilä to rapidly expand its footprint in the energy storage market globally and position as a premier energy system integrator.

The following tables summarise the preliminary amounts for the consideration paid for Greensmith, the cash flow from the acquisition and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

Preliminary consideration	MEUR
Consideration transferred	144
Total consideration transferred	144

Preliminary cash flow from the acquisition	MEUR
Consideration paid in cash	144
Total cash flow from the acquisition	144

Provisional values of the assets and liabilities arising from the acquisition	MEUR
Intangible assets	42
Trade and other receivables	5
Deferred tax assets	4
Total assets	51
Provisions	5
Trade payables and other liabilities	5
Deferred tax liabilities	17
Total liabilities	27
Total net assets	24
Preliminary goodwill	120

The preliminary fair values of acquired identifiable intangible assets at the date of acquisition (including trademark and technology related IP) amounted to EUR 42 million. The fair value of current trade receivables and other receivables is approximately EUR 5 million. The fair value of trade receivables does not include any significant risk.

The preliminary goodwill of EUR 120 million reflects the value of know-how and expertise in grid-scale energy storage and integrated solutions. Wärtsilä foresees that the acquisition will strengthen its position as an energy system integrator as well as support its growth strategy by improving Wärtsilä's offering and services towards customers.

During 2017 the Group incurred acquisition-related costs of EUR 1 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the consolidated statement of income.

Pro Forma

If the Greensmith acquisition had occurred on 1 January 2017, management estimates that consolidated net sales would have been EUR 4,928 million. The impact in the consolidated operating result would not have been significant. In determining these amounts, management has assumed that the fair value adjustments, which arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Other acquisitions

In October, Wärtsilä acquired 100% of Puregas Solutions Ab and Guidance Navigation Holdings Limited.

Puregas Solutions is a Sweden based leader in turnkey biogas upgrading solutions. The acquisition complements Wärtsilä's existing position in the biogas liquefaction market.

Guidance Navigation Holdings Limited is a UK based privately owned company. The company is a technology leader in the marine industry for sensor solutions relating to dynamic positioning and other vessel control systems. The acquisition enhances Wärtsilä's capabilities in the areas of situational awareness and near-field measurement, both essential for more intelligent vessel navigation.

The following tables summarise the preliminary amounts for the consideration paid, the cash flow from the acquisitions and the amounts of the assets acquired and liabilities assumed recognised at the acquisition dates.

Preliminary consideration	MEUR
Consideration transferred	63
Total consideration transferred	63

Preliminary cash flow from the acquisitions	MEUR
Consideration paid in cash	53
Contingent consideration	9
Cash and cash equivalents of the acquired companies	-10
Total cash flow from the acquisitions	52

Provisional values of the assets and liabilities arising from the acquisitions	MEUR
Intangible assets	17
Inventories	1
Trade and other receivables	14
Cash and cash equivalents	10
Total assets	43
Provisions	1
Trade payables and other liabilities	9
Advances received	4
Deferred tax liabilities	4
Total liabilities	17
Total net assets	26

Preliminary goodwill	37
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The preliminary fair values of acquired identifiable intangible assets at the date of acquisitions (including customer relations, technology and trade marks) amounted to EUR 17 million. The fair value of current trade receivables and other receivables is approximately EUR 14 million. The fair value of trade receivables does not include any significant risk.

The preliminary goodwill of EUR 37 million reflects the value of know-how and expertise in turnkey biogas upgrading solutions and more intelligent vessel navigation. Wärtsilä foresees that acquisition of Puregas Solutions Ab will strengthen and complement its position in the biogas liquefaction market as well as improve Wärtsilä's offering and reach in the gas value chain. The acquisition of Guidance Navigation Holdings Limited enhances Wärtsilä's capabilities in the areas of situational awareness and near-field measurement, both essential for more intelligent vessel navigation.

During 2017, the Group incurred acquisition-related costs of EUR 1 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the consolidated statement of income.

Pro forma

If the other acquisitions had occurred on 1 January 2017, management estimates that consolidated net sales would have been EUR 4,940 million. The impact in the consolidated operating result would not have been significant. In determining these amounts, management has assumed that the fair value adjustments, which arose on the dates of acquisitions would have been the same if the acquisitions had occurred on 1 January 2017.

Acquisitions 2016

American Hydro Corporation

On 30 June 2016, Wärtsilä acquired 100% of a USA- and Canada-based company, American Hydro Corporation, from the Weir Group plc.

American Hydro is a leading supplier and installer of large equipment upgrades and servicing for the hydroelectric and water distribution industries, specialising in consultancy, design and precision performance enhancements for hydro-turbines and pumps. This acquisition will enable Wärtsilä to grow and expand its existing global Hydro and Industrial service offering.

The following tables summarise the amounts for the consideration paid for American Hydro, the cash flow from the acquisition, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

Total consideration	MEUR
Consideration transferred	46
Total consideration transferred	46

Cash flow from the acquisition	MEUR
Consideration paid in cash	45
Contingent consideration	1
Cash and cash equivalents of the acquired companies	-4
Total cash flow from the acquisition	42

The assets and liabilities arising from the acquisition at fair value	MEUR
Intangible assets	5
Property, plant and equipment	14
Inventories	1

Trade and other receivables	8
Cash and cash equivalents	4
Total assets	33
Provisions	1
Trade payables and other liabilities	7
Total liabilities	8
Total net assets	24
Goodwill	22

The fair values of acquired identifiable intangible assets at the date of acquisition (including customer relationships and order book) amounted to EUR 5 million. The fair value of current trade receivables and other receivables is approximately EUR 8 million. The fair value of trade receivables does not include any significant risk.

The goodwill of EUR 22 million reflects the value of know-how and expertise in hydroelectric and water distribution industries. Wärtsilä foresees that the acquisition will strengthen its presence in hydro and industrial services as well as support the growth strategy and expansion in renewables, improving Wärtsilä's offering and services towards customers. The goodwill recognised for American Hydro is expected to be mainly tax deductible.

During 2016, the Group incurred acquisition-related costs of EUR 1 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the consolidated statement of income.

Eniram Group

On 30 June 2016, Wärtsilä signed an agreement to acquire Eniram, a Finland-based technology company providing the marine industry with energy management and analytics solutions. 100% ownership of the company transferred to Wärtsilä with effect from 1 July 2016.

Eniram provides the maritime industry with energy management technology to reduce fuel consumption and emissions. Eniram's solutions range from single onboard applications for trim, speed and engine optimisation to comprehensive fleet analysis. The company's solutions are installed in over 270 vessels; saving fuel, increasing profitability and reducing harmful emissions. Eniram is headquartered in Helsinki, Finland and has subsidiaries in the UK, the USA, Germany and Singapore. The acquisition of Eniram will enable Wärtsilä to grow and strengthen its existing digital offering and in-house capabilities, specifically in data analytics, modelling and performance optimisation.

The following tables summarise the amounts for the consideration paid for Eniram Group, the cash flow from the acquisition, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

Total consideration	MEUR
Consideration transferred	41
Total consideration transferred	41

Cash flow from the acquisition	MEUR
Consideration paid in cash	41
Cash and cash equivalents of the acquired companies	-1
Total cash flow from the acquisition	40

The assets and liabilities arising from the acquisition at fair value	MEUR
Intangible assets	11
Trade and other receivables	3

Cash and cash equivalents	1
Total assets	14
Provisions	2
Trade payables and other liabilities	4
Deferred tax liabilities	2
Total liabilities	8
Total net assets	7
Goodwill	34

The fair values of acquired identifiable intangible assets at the date of acquisition (including technology) amounted to EUR 11 million. The fair value of current trade receivables and other receivables is approximately EUR 3 million. The fair value of trade receivables does not include any significant risk.

The goodwill of EUR 34 million reflects the value of know-how and expertise in energy management technology. Wärtsilä foresees that the acquisition will enable customers to optimise their assets and improve predictability, as well as support them with real-time analytics. Through this acquisition Wärtsilä takes a solid lead in marine digitalisation.

During 2016 the Group incurred acquisition-related costs of EUR 1 million related to external legal fees and due diligence costs. The costs have been included in the other operating expenses in the consolidated statement of income.

Pro forma

If the acquisitions had occurred on 1 January 2016, management estimates that consolidated net sales would have been EUR 4,826 million. The impact in the consolidated operating result would not have been significant. In determining these amounts, management has assumed that the fair value adjustments, which arose on the date of acquisitions would have been the same if the acquisitions had occurred on 1 January 2016.

3. Disposals

Disposals 2017

In 2017, there were no disposals.

Disposals 2016

On 30 June 2016, Wärtsilä sold its majority interest in Wärtsilä Ship Design Serbia doo to the operative management of the company. The consideration received and the impact on profit for the financial period were not significant.

On 31 October 2016, Wärtsilä divested its power drives business to Finland-based The Switch. The consideration paid and the impact on profit for the financial period were not significant.

4. Long-term construction contracts and operating and maintenance agreements

MEUR	2017	2016
Net sales recognised for the financial period		
From long-term construction contracts	980	813
From long-term operating and maintenance agreements	392	331
Long-term construction contracts in progress		
Aggregated amount of costs incurred and recognised profits	2 592	2 213
Advances received at 31 December	2 213	1 965
Receivables from the revenue recognition netted with the advances received at 31 December	379	249

Revenue from long-term construction contracts and long-term operating and maintenance agreements is recognised in accordance with the percentage of completion method. The percentage of completion is usually based on the ratio of costs incurred to total estimated costs to date for long-term construction contracts. In some gas solution projects where the key value drivers are engineering, procurement and project management, and where the manufacturing is outsourced, the percentage of completion is assessed with reference to surveys of work performed. For long-term operating and maintenance agreements the percentage of completion is calculated on the basis of the proportion of the contracted services performed.

5. Other operating income

MEUR	2017	2016
Capital gains	18	7
Government grants	10	8
Sale of scrapped material	3	3
Income related to cancelled orders*	6	9
Insurance indemnities	4	7
Other	20	21
Total	60	55

* Expenses related to cancelled orders are recorded on respective expense accounts.

6. Material and services

MEUR	2017	2016
Purchases during the financial period	-1 415	-1 207
Change in inventories	1	-27
External services	-1 144	-1 119
Total	-2 558	-2 353

7. Employee benefit expenses

MEUR	2017	2016
Wages and salaries	1 000	939
Pension costs		
Defined benefit plans	9	10
Defined contribution plans	66	63
Other compulsory personnel costs	139	147
Total	1 214	1 159

Management remuneration is specified in Note 28. Related party disclosures.

Long-term incentive schemes

Wages and salaries include a provision for expenses arising from bonus schemes 2014, 2015 and 2016, totalling EUR 40 million (5). The provision is recognised at fair value. The bonus schemes are tied to the price development of the Company's share during a pre-determined timeframe, and an upper limit is set for the bonus. When a bonus scheme ends and the employment requirement is fulfilled, the bonus is settled in cash. Board of Management members shall acquire Wärtsilä shares with 50% of the net bonuses received, until the share ownership corresponding to the individuals' annual gross base salary level has been achieved.

The bonus payment for bonus schemes is based on the share price development during a three-year period. The 2014 bonus scheme comprises 1,805,000 bonus rights, the 2015 bonus scheme 1,843,000 bonus rights and the 2016 bonus scheme 2,047,000 bonus rights. For the bonus scheme 2014 the basis of a share price is EUR 44.25, for the bonus scheme 2015 EUR 47.47 and for the bonus scheme 2016 EUR 48.57. The bonus schemes take into account 100% of dividends paid, and the paid bonus cannot exceed EUR 10.60 per bonus right in the 2014 bonus scheme, EUR 13.84 in the 2015 bonus scheme or EUR 18.21 in the 2016 bonus scheme.

	2017	2016
Personnel on average	17 866	18 332
Personnel at the end of the financial period	18 065	18 011

8. Depreciation, amortisation and impairment

MEUR	2017	2016
Development expenses	12	9
Purchase price allocation amortisation	36	35
Other intangible assets	12	15
Buildings and structures	15	15
Machinery and equipment	45	46
Other tangible assets	1	1
Impairments	14	17
Total	134	138

9. Other operating expenses

MEUR	2017	2016
Travel costs	138	128
Rental costs	90	93
Legal and consultancy costs	71	54
Information technology costs	55	55
Other personnel related costs	51	56
Other	173	171
Total	577	556

10. Financial income and expenses

MEUR	2017	2016
Interest income on loans and receivables	2	2
Interest income on financial assets at fair value through the statement of income	9	5
Exchange rate differences*		8
Other financial income	2	4
Total financial income	12	19
Interest expenses on financial liabilities recognised at amortised cost	-10	-13
Interest expenses on financial liabilities at fair value through the statement of income	-14	-11
Net interest from defined benefit plans	-3	-3
Changes in fair values of financial assets/liabilities at fair value through the statement of income	1	
Write-down of financial receivables		-36
Exchange rate differences*	-27	
Fee expenses	-1	
Other financial expenses	-4	-8
Total financial expenses	-59	-72
Total	-47	-53

* In 2017, the result from the ineffective portion of cash flow hedges related to cancelled orders, EUR -15 million (-8) and exchange rate differences from unhedged internal loans, EUR -7 million (14) were included in exchange rate differences in the consolidated statement of income.

11. Income taxes

MEUR	2017	2016
Income taxes		
for the financial period	-121	-121
for prior financial periods	-2	
Change in deferred tax		
origination and reversal of temporary differences	-4	-1
changes in tax rates	4	
Total	-122	-123
Reconciliation of effective tax rate:		
Profit before taxes	506	479
Tax calculated at the domestic corporate tax rate 20.0%	-101	-96
Effect of changed tax rates	4	-3
Effect of different tax rates in foreign subsidiaries	4	2
Effect of income not subject to tax and non-deductible expenses	-3	-7
Effect of share of result of associates and joint ventures	3	3
Utilisation of previously unrecognised tax losses carried forward	4	1
Unrecognised taxes on losses carried forward	-14	-6
Other taxes*	-14	-12
Other temporary differences	-2	-4
Income taxes for prior financial periods	-2	
Tax charge in the consolidated statement of income	-122	-123
Effective tax rate (%)	24.2	25.6

* Other taxes consist mainly of withholding taxes not utilised and taxes not directly based on taxable income.

Income taxes related to other comprehensive income are presented in Consolidated statement of comprehensive income. Changes in deferred tax assets and liabilities are presented in Note 20. Deferred taxes.

Wärtsilä is subject to tax audits in some countries, which can result in tax reassessment decisions and obligations to pay additional taxes and related payments.

12. Earnings per share

Earnings per share is calculated by dividing the profit for the financial period attributable to equity holders of the parent company by the weighted average number of shares outstanding. During the financial periods there were no programmes with dilutive effect.

MEUR	2017	2016
Profit for the financial period attributable to equity holders of the parent company	384	352
Thousands of shares		
weighted average number of shares outstanding*	197 241	197 241
Earnings per share attributable to equity holders of the parent company (basic and diluted):		
Earnings per share (EPS), basic and diluted, EUR	1.95	1.79

* Additional information on the number of shares is presented in Note 22. Equity.

13. Intangible assets

Goodwill

Goodwill allocation

Goodwill arising from business acquisitions is allocated to the Group cash-generating unit (CGU) that is the Group's operating segment. The operating segment represents the lowest level within the Group at which the goodwill is monitored. The companies acquired during the financial period are integrated to the Group CGU at the acquisition date. Previously separately presented CGU's have also been integrated to the Group CGU during the financial period. The goodwill is presented in the table below:

Goodwill/Cash Generating Unit

MEUR	2017	2016
American Hydro Corporation		23
Eniram Group		34
Wärtsilä, other		1 056
Wärtsilä	1 237	1 112

Impairment testing of goodwill

The Group performs its annual impairment testing of goodwill on 30 September. Impairment of goodwill is also carried out when changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount from the CGU is determined based on value-in-use calculation. The calculation is made on a discounted cash flow method basis, derived from the order book and five-year cash flow projections from management approved strategic plans. The estimated cash flow of CGU is based on utilisation of the existing property, plant and equipment in their current condition with normal maintenance capital expenditure, excluding any potential future acquisitions. Cash flow beyond the five-year period is calculated using the terminal value method. The terminal growth rate used in projections is based on management's assessment on conservative long-term growth. The terminal growth rate used is 2%.

The key driver for the valuation is the growth in the global economy and in particular the development of the global power market, the global shipbuilding industry and the demand for related services. The projected development of total costs in the market affects the profitability, whereas no single cost item is considered to have a material impact. The valuation driver for the new equipment sales is the growth in the global economy, whereas for after sales the drivers are also the demand for related services and the projected development in labour cost.

The applied discount rate is the weighted average pre-tax cost of capital (WACC) as defined by Wärtsilä. The components of the WACC are risk-free rate, market risk premium, industry specific beta, cost of debt and debt equity ratio. When defining the WACC for 2017, it has been considered that the general interest rate is currently on a lower level. Wärtsilä has used a WACC of 9.4% (9.6) in the calculations.

As a result of the impairment test, no impairment loss for the CGU was recognised for the financial periods ended 31 December 2017 and 2016 respectively. The recoverable amount from the CGU exceeded its carrying value remarkably.

Sensitivity analysis

The management has assessed that no reasonable possible changes in the key assumptions would cause the CGU's carrying amount to exceed its recoverable amount. Sensitivity analysis have been carried out for the valuation of the recoverable amount for the CGU by changing the assumptions used in the calculation. A change in an assumption that would cause the recoverable amount to equal the carrying amount is presented in the table below.

	Change
Pre-tax discount rate	increase more than 21 percentage points
Terminal growth rate	decrease more than 54 percentage points
Profitability	decrease more than 84 percentage

In management's opinion, the changes in the basic assumptions shall not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

2017

MEUR	Develop- ment expenses	Construc- tion in progress and advances paid	Other intangible assets	Goodwill	Total
Cost on 1 January 2017	107	41	743	1 118	2 008
Changes in exchange rates			-15	-33	-49
Acquisitions			61	157	217
Additions	1	19	5		25
Disposals and other changes			-12	1	-12
Reclassifications	34	-39	5		
Cost on 31 December 2017	142	21	783	1 243	2 189
Accumulated amortisation and impairment on 1 January 2017	-73		-495	-5	-574
Changes in exchange rates			9		10
Accumulated amortisation on disposals and other changes			12		12
Amortisation during the financial period	-12		-48		-60
Impairments			-1		-1
Accumulated amortisation and impairment on 31 December 2017	-85		-521	-6	-612
Carrying amount on 31 December 2017	57	21	262	1 237	1 577

Development costs for internally generated assets capitalised during the financial period amounted to EUR 16 million (6). The carrying amount was EUR 73 million (68).

Purchase price allocation amortisation amounted to EUR 36 million (35) and the carrying amount was EUR 227 million (209).

2016

MEUR	Develop- ment expenses	Construc- tion in progress and advances paid	Other intangible assets	Goodwill	Total
Cost on 1 January 2016	114	33	730	1 108	1 986
Changes in exchange rates	1		-15	-46	-60
Acquisitions			16	55	71
Additions		11	5		16
Disposals	-8		1		-8
Reclassifications		-3	5		2
Cost on 31 December 2016	107	41	743	1 118	2 008
Accumulated amortisation and impairment on 1 January 2016	-66		-450	-5	-522
Changes in exchange rates			8		8
Accumulated amortisation on disposals and other changes	4		-2		2
Amortisation during the financial period	-9		-50		-59
Impairments	-3				-3
Accumulated amortisation and impairment on 31 December 2016	-73		-495	-5	-574
Carrying amount on 31 December 2016	33	41	248	1 112	1 434

14. Property, plant & equipment

2017

MEUR	Land and water	Build- ings and struc- tures	Machin- ery and equip- ment	Construc- tion in progress and advances paid	Other tangible assets	Invest- ment propert- ies	Total
Cost on 1 January 2017	34	349	834	12	25	12	1 266
Changes in exchange rates	-1	-10	-18				-30
Additions		2	20	17			39
Disposals	-1	-22	-45			-1	-69
Reclassifications		-6	-5	-11	-1		-22
Cost on 31 December 2017	31	313	787	18	23	11	1 185
Accumulated depreciation and impairment on 1 January 2017	-1	-179	-660		-21		-861
Changes in exchange rates		4	13				18
Accumulated depreciation on disposals		15	44				59
Depreciation during the financial period		-15	-45		-1		-61

Impairments	-6	-7					-13
Reclassifications	9	13			1		22
Accumulated depreciation and impairment on 31 December 2017	-2	-172	-642		-20		-835
Carrying amount on 31 December 2017	30	142	146	18	3	11	349
Value of finance-leased assets included in carrying amount							1

Investment properties include land areas not used by the Group. Their estimated fair value is around EUR 18 million (21). During the financial period, investment properties were sold totalling EUR 1 million (1) generating no significant gain (1).

2016

MEUR	Land and water	Buildings and structures	Machinery and equipment	Construction in progress and advances paid	Other tangible assets	Investment properties	Total
Cost on 1 January 2016	32	343	800	33	24	13	1 246
Changes in exchange rates		5	7				13
Acquisitions	1	6	6				14
Additions		3	28	7			38
Disposals		-9	-28			-1	-38
Reclassifications			23	-29			-5
Cost on 31 December 2016	34	349	834	12	25	12	1 266
Accumulated depreciation and impairment on 1 January 2016	-1	-162	-630		-20		-815
Changes in exchange rates		-2	-5				-8
Accumulated depreciation on disposals		8	26				33
Depreciation during the financial period		-15	-46		-1		-62
Impairments		-8	-6				-14
Reclassifications		1	1				4
Accumulated depreciation and impairment on 31 December 2016	-1	-179	-660		-21		-861
Carrying amount on 31 December 2016	33	170	174	12	4	12	405
Value of finance-leased assets included in carrying amount							1

15. Investments in associates and joint ventures

MEUR	2017	2016
Carrying amount on 1 January	84	89
Investments		9
Share of result	13	14
Dividends	-12	-29
Translation differences	-1	1

Disposal of shares		-1
Carrying amount on 31 December	83	84

In 2016, Wärtsilä invested EUR 9 million in the joint venture CSSC Wärtsilä Engine (Shanghai) Co., Ltd and sold its 40% share in the China-based associated company Cosco-Shipyard Total Automation Co Ltd. The consideration received and the impact on profit for the financial period were not significant.

Summary of financial information (100%):

2017

MEUR		Holding %	Assets	Equity	Liabilities	Net sales	Profit for the financial period
Joint ventures							
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	25	19	7	13	
Wärtsilä Hyundai Engine Co Ltd.	South Korea	50.0	192	122	70	176	34
CSSC Wärtsilä Engine (Shanghai) Co., Ltd.	China	49.0	62	22	40	26	-9
Repropel Sociedad de reparacao de helices	Portugal	50.0	1	1	1	1	
Associated companies							
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		-2	2		
Neptun Maritime AS	Norway	40.0	1	1		1	

CSSC Wärtsilä Engine (Shanghai) Co., Ltd factory is manufacturing medium and large bore medium speed diesel and dual-fuel engines at Lingang, Shanghai. Wärtsilä Hyundai Engine Co Ltd. manufactures Wärtsilä 50DF dual-fuel engines for LNG carriers and other marine application in Mokpo, South Korea. Wärtsilä Qiyao Diesel Company Ltd. manufactures marine auxiliary engines in Shanghai, China.

2016

MEUR		Holding %	Assets	Equity	Liabilities	Net sales	Profit for the financial period
Joint ventures							
Wärtsilä Qiyao Diesel Company Ltd.	China	50.0	30	21	9	19	
Wärtsilä Hyundai Engine Co Ltd.	South Korea	50.0	232	111	122	221	32
CSSC Wärtsilä Engine (Shanghai) Co., Ltd.	China	49.0	52	32	20		-4
Repropel Sociedad de reparacao de helices	Portugal	50.0	1	1		2	
Associated companies							
Wärtsilä Land & Sea Academy, Inc.	Philippines	40.0		-2	2		
Neptun Maritime AS	Norway	40.0	1	1		1	

16. Financial assets and liabilities by measurement category

2017

MEUR	Measured at amortised cost	At fair value through the statement of income	At fair value through other comprehensive income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets					
Interest-bearing investments		5		5	5
Other investments		13		13	13
Other receivables	3			3	3
Current financial assets					
Trade receivables	1 306			1 306	1 306
Trade receivables for sale		1		1	1
Derivatives		15	14	28	28
Other receivables	4			4	4
Cash and cash equivalents	6	373		379	379
Carrying amount by measurement category	1 319	407	14	1 740	1 740
Non-current financial liabilities					
Interest-bearing debt	517			517	524
Current financial liabilities					
Interest-bearing debt	102			102	102
Trade payables	539			539	539
Derivatives		31	10	41	41
Other liabilities	11			11	11
Carrying amount by measurement category	1 169	31	10	1 211	1 218

2016

MEUR	Measured at amortised cost	At fair value through the statement of income	At fair value through other comprehensive income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets					
Interest-bearing investments	6			6	6
Other investments			15	15	15
Other receivables	6			6	6
Current financial assets					
Trade receivables	1 220			1 220	1 220
Derivatives			9	9	9
Other receivables	10			10	10
Cash and cash equivalents	472			472	472
Carrying amount by measurement category	1 714		24	1 738	1 738

Non-current financial liabilities				
Interest-bearing debt	520		520	531
Current financial liabilities				
Interest-bearing debt	108		108	108
Trade payables	502		502	502
Derivatives		13	31	45
Other liabilities	6		6	6
Carrying amount by measurement category	1 136	13	31	1 181
			1 181	1 192

Fair value hierarchy

Financial instruments measured at fair value are classified according to the following fair value hierarchy: instruments measured using quoted prices in active markets (level 1), instruments measured using inputs other than quoted prices included in level 1 observable either directly or indirectly (level 2), and instruments measured using inputs that are not based on observable market data (level 3). Financial instruments measured at fair value include financial assets and liabilities at fair value through the statement of income. Due to the short nature of the current receivables, their carrying amount is considered to be same as their fair value.

Specific valuation techniques used to value financial instruments include:

- the fair value of forward foreign exchange contracts is determined by using forward rates at the closing date
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the use of quoted market prices or dealer quotes for similar instruments

MEUR	2017		2016	
	Level 2	Level 3	Level 2	Level 3
Financial assets				
Other investments		13		15
Interest-bearing investments, non-current	5		6	
Other receivables, non-current	3		6	
Derivatives	28		9	
Financial liabilities				
Interest-bearing debt, non-current	524		531	
Derivatives	41		45	

Additional information on financial liabilities is presented in Note 24. Financial liabilities.

Other investments

Other investments include unlisted shares carried at fair value. These investments are valued using certain DCF models where critical assumptions relate to WACC level and expected cash flows from future dividends. However, the results from different scenarios vary a lot. Thus, the management considers that the valuation at amortised cost is the best estimate of fair value.

MEUR	2017	2016
Carrying amount on 1 January	15	15
Disposal of shares	-1	
Impairment	-1	
Carrying amount on 31 December	13	15

In 2017, the cost for other unlisted shares (level 3) was EUR 13 million (15), and the market value of them was EUR 13 million (15).

Interest-bearing debt

MEUR	2017	2016
Carrying amount on 1 January	629	724
Cash flows	-3	-98
Exchange rate differences	-7	
Acquisitions and disposals		2
Carrying amount on 31 December	619	629

17. Inventories

MEUR	2017	2016
Materials and consumables	432	432
Work in progress	557	532
Finished products	27	36
Advances paid	36	42
Total	1 051	1 042

In 2017, EUR 4 million (17) impairment for obsolete inventories has been recognised in the consolidated statement of income. Acquisition-related increase in inventories is EUR 1 million (1).

18. Other receivables

MEUR	2017	2016
Derivatives	28	9
Interest and other financial items	4	10
Insurance receivables	3	10
Rental accruals	4	5
Project accruals	63	10
Accruals from long-term contracts	256	295
Other accruals	46	47
Loan receivables	3	6
Defined benefit plans	1	1
VAT receivables	97	71
Other*	52	49
Total	557	512
Non-current	18	18
Current	539	494

* Includes payroll related tax receivables of EUR 10 million (11) in Brazil, which cannot be utilised within a year.

19. Cash and cash equivalents

MEUR	2017	2016
Cash and bank balances*	359	450
Cash equivalents	20	22
Total	379	472

* EUR 122 million (132) of cash and bank balances relate to cash in countries where repatriation is limited due to local regulation and consequently the cash is not immediately available to the parent company.

20. Deferred taxes

Changes in deferred taxes during 2017

MEUR	1 January 2017	Recognised in the consolidated statement of income	Other comprehensive income	Translation differences	Acquisitions and disposals	31 December 2017
Deferred tax assets						
Tax loss carry-forwards	19	-1		-1	2	18
Pension obligations	25	-2		-1		23
Provisions	32	-2		-2	2	30
Elimination of intragroup margin in inventories	9	-3				5
Fair value reserve	12		-6	-1		6
Other temporary differences	44	-3		-3		41
Total	141	-11	-6	-7	4	123
Deferred tax liabilities						
Intangible assets and property, plant and equipment	59	-19		-1	21	57
Fair value reserve	1		2			2
Other temporary differences	35	8		-3		42
Total	93	-10	2	-3	21	102
Net deferred tax assets/liabilities	48		-8	-4	-17	21

On 31 December 2017, the Group had temporary differences on which no deferred tax assets were booked totalling EUR 47 million (45), as it is uncertain if they will be realised. Most of the unrecognised deferred tax assets are related to cumulative tax losses. Of these, EUR 8 million (12) will expire within the next five years and the rest will expire later or never. The cumulative tax losses on which deferred tax assets have been booked will never expire.

Changes in deferred taxes during 2016

MEUR	1 January 2016	Recogn- ised in the con- solidated statement of income	Other compre- hensive income	Transla- tion dif- ferences	Acquisi- tions and disposals	31 December 2016
Deferred tax assets						
Tax loss carry-forwards	26	-8		1		19
Pension obligations	23	-1	3			25
Provisions	32			1		32
Elimination of intragroup margin in inventories	10	-2				9
Fair value reserve	24		-11	1		12
Other temporary differences	42	1		1		44
Total	157	-9	-8	3		141
Deferred tax liabilities						
Intangible assets and property, plant and equipment	64	-7			2	59
Fair value reserve	1					1
Other temporary differences	36	-1				35
Total	102	-8			2	93
Net deferred tax assets/liabilities	55	-1	-8	3	-2	48

21. Pension obligations

MEUR	2017	2016
Net defined benefit liabilities on 31 December	154	168
Liability for other long term employee benefits on 31 December	11	10

Wärtsilä has defined benefit plans for its employees mainly in Europe and Asia. The major plans are located in Switzerland, Germany, Great Britain and Sweden. The Swiss defined benefit plan accounts for 28% of the Group's total defined benefit obligations and 52% of the plans' assets. Most of the plans provide a lifetime pension to the members at the normal retirement age but there are also plans, which provide a lump sum payment at the retirement date. Most of these defined benefit pension plans are managed by pension funds. Their assets are not included in the Group's assets. The plans' assets are typically invested according to the investment strategies approved by the funds' Board of Trustees, or in some cases they are completely administered by insurance companies. Wärtsilä's subsidiaries make their payments to pension funds in accordance with the local legislation and practice. Authorised actuaries in each country have performed the actuarial calculations required for the defined benefit plans.

The Swiss Plan

Wärtsilä operates a defined benefit plan in Switzerland in accordance with the local pension laws and regulations. The plan provides benefits to the members in the form of a pension payable after retirement. The level of benefits provided depends on the accrued retirement savings capital, which is a result of contributions paid up to retirement plus respective interest. The plan is run as a pension fund by the Board of Trustees separately from the company.

Contributions to the plan are paid both by the employees as well as by the employers based on a percentage of the insured salary as defined in the pension fund regulations. Contributions by the employers vary depending on the age of the employee and cover on average two thirds of the total contributions.

The investment strategy for a pension fund's asset is the responsibility of the Board of Trustees. Assets are invested in accordance with the

strategy and the corridors for different investment categories as defined by local laws. Other risks of the plan are longevity of plan members as well as death or disability of employees before their retirement. The pension plan is reinsured for the risk of death and disability until 31 December 2017. Inflationary increases for pensions in payment are at the discretion of the Board of Trustees as benefits paid by the plan are exceeding the minimum level required by law.

The German Plans

Wärtsilä operates defined benefit plans in Germany in accordance with the local pension laws and regulations. The plans provide benefits to the members in the form of a pension payable after retirement. The level of benefits provided depends on the accrued retirement savings capital, which is a result of contributions paid up to retirement plus respective interest. The plans vary from unfunded plans to a plan run as a pension fund.

In some of the plans, contributions are paid to the plan both by the employees and the employers based on a percentage of the insured salary as defined in the pension fund regulations. However, in some plans only the employer is obliged to make the payments. Contributions by the employers vary depending on the age of the employee, the duration of the employment and also on the position of the employee.

The main risks of the plans are longevity of plan members and death or disability of employees before their retirement. In a funded plan, also the investment strategy chosen includes certain risk. Inflationary increases for pensions in payment are valued on a yearly basis.

MEUR	2017	2016
Present value of unfunded defined benefit obligations	111	119
Present value of funded defined benefit obligations	197	206
Fair value of plan assets	-154	-156
Net liability in the statement of financial position	154	168

%	Present value of defined benefit obligations	Fair value of plan assets
Switzerland	28	52
Germany	23	5
Other Europe	41	33
Asia	8	10
Total	100	100

MEUR	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance on 1 January 2016	313	-152	161
Changes in exchange rates	-4	2	-2
Recognised in the statement of income:			
Current service cost	9		10
Gains (-) / losses (+) on curtailments and settlements	-1	1	
Interest cost (+) / interest income (-)	6	-2	3
Remeasurements recognised in other comprehensive income:			
Return on plan assets, excluding interest income		-10	-10
Experience adjustments	-1		-1
Changes in financial assumptions	24		24

Contribution paid by the plan members	1	-1	
Contribution paid by the employer		-10	-10
Benefits paid	-24	16	-8
Balance on 31 December 2016	323	-156	168
Balance on 1 January 2017	323	-156	168
Changes in exchange rates	-14	10	-4
Other adjustments	4		4
Recognised in the statement of income:			
Current service cost	8		9
Interest cost (+) / interest income (-)	5	-2	3
Remeasurements recognised in other comprehensive income:			
Return on plan assets, excluding interest income		-3	-3
Experience adjustments	8		8
Changes in demographic assumptions	-1		-1
Changes in financial assumptions	-10		-10
Contribution paid by the plan members	1	-1	
Contribution paid by the employer		-10	-10
Benefits paid	-19	10	-9
Balance on 31 December 2017	307	-154	154

Plan assets invested in:

%	2017	2016
Shares and other equity instruments	26	23
Bonds and other debt instruments	35	31
Property	16	15
Other assets	23	30

The main actuarial assumptions at the end of the financial period are (expressed as weighted averages):

%	2017	2016
Discount rate	1.65	1.51
Future salary growth	2.15	2.05
Future pension growth	1.14	1.17

On 31 December 2017, the weighted average duration of the defined benefit obligation was 12 years. The Group expects to contribute EUR 10 million to the plans during the next financial period.

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in each country. These assumptions translate into a weighted average life expectancy in years for a pensioner at the retirement age as follows:

	2017	2016
Plan participants retiring at the end of the financial period:		
Male	17.7	17.2
Female	19.6	19.4
Plan participants retiring 20 years after the end of the financial period:		
Male	19.5	18.2
Female	21.9	20.2

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the end of the financial period. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety.

Sensitivity analysis

	Change in assumption	Effect to defined benefit obligation, MEUR	
		2017	2016
Discount rate	increase 1%	-36	-35
Discount rate	decrease 1%	44	47
Future salary growth	increase 1%	13	13
Future salary growth	decrease 1%	-10	-7
Future pension growth	increase 1%	28	30
Future pension growth	decrease 1%	-15	-16

22. Equity

Equity consists of share capital, share premium, translation differences, fair value reserve, remeasurements of defined benefit liabilities and retained earnings.

Share capital and number of shares

MEUR

Share capital	Number of shares and votes	Share capital	Share premium	Total
1 January 2016	197 241 130	336	61	397
31 December 2016	197 241 130	336	61	397
31 December 2017	197 241 130	336	61	397

Wärtsilä's share does not have a nominal value.

Share Capital

The subscription price of a share received by the Company in connection with share issues is credited to the share capital, unless it is provided in the share issue decision that a part of the subscription price is to be recorded in the fund for invested non-restricted equity.

Share Premium

Share premium is restricted equity. It may be reduced in accordance with the rules applying to decreasing share capital in accordance with Finnish Limited Liability Companies Act. It can also be used to increase the share capital.

Translation differences

Translating foreign subsidiaries' financial statements by using different exchange rates in the statement of comprehensive income and in the statement of financial position causes translation differences, which are recognised in equity. Translation differences of foreign subsidiaries'

acquisition cost eliminations and post acquisition gains and losses are also presented in equity. The change in translation differences is recognised in other comprehensive income.

Fair value reserve

Fair value reserve includes the changes in fair value of derivative financial instruments, if the hedging is effective and eligible for hedge accounting. The changes in items included in fair value reserve are recognised in other comprehensive income.

MEUR	Cash flow hedges
Difference between fair value and carrying amount on 1 January 2016	-91
Taxes related to fair value adjustments	22
Fair value reserve on 1 January 2016	-70
Transferred to the statement of income, net of taxes	44
Fair value adjustments	-16
Taxes related to fair value adjustments	4
Fair value reserve on 31 December 2016	-39
Transferred to the statement of income, net of taxes	28
Fair value adjustments	1
Taxes related to fair value adjustments	-1
Fair value reserve on 31 December 2017	-10

Parent company's distributable funds

After the balance sheet date, the Board of Directors proposed that a dividend of EUR 1.38 per share be paid for the financial period 2017, total dividend payable being EUR 272 million. The remaining part of the retained profits will be carried further in the unrestricted equity. For the profit for the financial period 2016, a dividend of EUR 1.30 per share was distributed, totalling EUR 256 million, and the rest of the retained profits were carried further in the unrestricted equity.

Additional information on equity is presented in Notes to the parent company financial statements, in Note 10. Shareholders' equity.

23. Provisions

2017

MEUR	Litigation	Warranties	Onerous contracts	Restructuring	Other provisions	Total
Provisions on 1 January 2017	17	170	17	18	29	250
Changes in exchange rates		-2	-1		-1	-4
Acquisitions		1	5			6
Additions	10	57	18	6	11	102
Used provisions	-2	-52	-9	-17	-3	-83
Released provisions	-6		-3		-1	-10
Provisions on 31 December 2017	19	173	27	6	35	261
Non-current						52
Current						209

2016

MEUR	Litigation	Warranties	Onerous contracts	Restructuring	Other provisions	Total
Provisions on 1 January 2016	15	187	17	15	35	269
Changes in exchange rates		1				1
Additions	6	48	10	22	7	94
Used provisions	-1	-66	-9	-18	-8	-103
Released provisions	-2		-2	-2	-5	-11
Provisions on 31 December 2016	17	170	17	18	29	250
Non-current						44
Current						206

Warranty provisions include estimated future warranty costs relating to products delivered. The amount of future warranty costs is based on accumulated historical experience. The standard warranty period is one year from the delivery onwards.

The Group is a defendant in a number of legal cases which arise out of, or are incidental to, the ordinary course of its business. These lawsuits concern mainly issues such as contractual and other liability, labour relations, property damage and regulatory matters. The Group receives from time to time claims of different amounts and with varying degrees of substantiation. There is currently one unusually sizeable claim, but it is highly unlikely that the outcome of it would be unfavourable. The claim is treated as a contingent liability as it is the Group's policy to provide for amounts related to the claims as well as for the litigation and arbitration matters when an unfavourable outcome is probable and the amount of loss can be reasonably estimated.

24. Financial liabilities

2017

MEUR	Non-current				Total	
	Current	< 1 year	1-3 years	3-5 years		> 5 years
Loans from pension insurance companies*		8				8
Loans from other financial institutions*		90	112	237	166	605
Finance lease liabilities*		1				1
Other interest-bearing debt*		4				4
Trade payables		539				539
Derivatives		23	1	17		41
Other liabilities		11				11
Total		676	114	255	166	1 211
* Estimated interest expenses, total		7	12	10	5	34
Estimated contractual cash flows		683	126	265	171	1 245

2016

MEUR	Non-current				Total	
	Current	< 1 year	1-3 years	3-5 years		> 5 years
Loans from pension insurance companies*		10	8			18
Loans from other financial institutions*		95	137	187	186	606
Finance lease liabilities*		1				1

Other interest-bearing debt*	3				4
Trade payables	502				502
Derivatives	45				45
Other liabilities	6				6
Total	662	145	187	186	1 181
* Estimated interest expenses, total	8	12	10	5	34
Estimated contractual cash flows	670	157	197	191	1 215

Interest expenses for long term loans are calculated by using average interest rate prevailing on 31 December 2017. Fair values of financial liabilities are presented in Note 16. Financial assets and liabilities by measurement category.

25. Other liabilities

MEUR	2017	2016
Project costs	541	479
Personnel costs	191	158
Derivatives	41	45
Interest and other financial items	11	6
Other accruals	52	63
VAT liabilities	26	25
Other	70	58
Total	932	834
Non-current	1	1
Current	931	833

26. Derivative financial instruments

The Group applies hedge accounting to significant foreign currency forward contracts. Detailed financial information is presented in Note 29. Financial risks.

MEUR	2017	of which closed	2016	of which closed
Nominal values of derivative financial instruments (level 2)				
Interest rate swaps	165		165	
Cross currency swaps	74		81	
Currency forwards, included in hedge accounting	814	312	1 468	252
Currency forwards, no hedge accounting	1 134	435	1 320	226
Total	2 187	746	3 034	478

Fair values of derivative financial instruments (level 2)		
Interest rate swaps	-2	-4
Cross currency swaps	-17	-10
Currency forwards, included in hedge accounting	2	-12
Currency forwards, no hedge accounting	3	-10
Total	-13	-35

In addition, the Group had copper futures and swaps amounting to 254 tons valued at EUR 2 million.

Foreign currency forward contracts are against transactional risks and fall due during the following 12 months (12). A currency forward is considered closed when there are offsetting cash flows in the same currency with the same value date. Interest rate swaps are denominated in euros and their average maturity is 18 months (26). The average maturity for cross currency swaps is 40 months (53).

Normally all of the Groups' derivatives are done under International Swaps and Derivatives Association's Master Agreements (ISDA). In case of an event of default under these agreements the non-defaulting party may request early termination and set-off of all outstanding transactions. These agreements do not meet the criteria for offsetting in the statement of financial position. The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

MEUR	2017	2016
Gross fair values of derivative financial instruments subject to ISDAs		
Assets		
Currency forwards	28	9
Total	28	9
Liabilities		
Interest rate swaps	-19	-13
Currency forwards	-22	-31
Total	-41	-44
Net fair values of derivative financial instruments subject to ISDAs		
Assets	12	3
Liabilities	-27	-38
Total	-16	-35

27. Collateral, contingent liabilities and other commitments

MEUR	2017		2016	
	Debt in the statement of financial position	Collateral	Debt in the statement of financial position	Collateral
Mortgages given as collateral for liabilities and commitments				
Other commitments	16	10	19	10
Total	16	10	19	10

Chattel mortgages and other pledges and securities given as collateral for liabilities and commitments				
Loans from credit institutions	11	4	15	6
Other commitments		16		20
Total	11	19	15	26

MEUR			2017	2016
Guarantees and contingent liabilities				
on behalf of Group companies			737	921
Total			737	921
Nominal amounts of rents according to leasing contracts				
Payable within one year			35	34
Payable between one and five years			101	84
Payable later			48	30
Total			185	148

28. Related party disclosures

Related parties comprise the Board of Directors, the President and CEO, the Board of Management, the associated companies, and joint ventures.

Management remuneration

TEUR	Benefits recognised in the statement of income	
	2017	2016
President and CEO		
Salaries and other short-term benefits	785	781
Bonuses	234	179
Share based bonuses	3 438	216
Statutory pension costs	145	135
Voluntary pension costs	156	182
Deputy of President and CEO		
Salaries and other short-term benefits	425	386
Bonuses	80	114
Share based bonuses	1 719	216
Statutory pension costs		32
Voluntary pension costs	88	61
Other members of the Board of Management		
Salaries and other short-term benefits	2 153	1 878
Bonuses	456	366
Share based bonuses	9 896	836
Statutory pension costs	322	277
Voluntary pension costs	493	480
Total	20 389	6 141

Board of Directors on 31 December 2017		
Mikael Lilius, Chairman	153	155
Tom Johnstone, Deputy Chairman	108	77
Maarit Aarni-Sirviö, member	78	82
Kaj-Gustaf Bergh, member	74	74
Karin Falk, member	71	
Johan Forssell, member	72	
Risto Murto, member	79	81
Markus Rauramo, member	81	86
Board of Directors, until 2 March 2017		
Sune Carlsson, Deputy Chairman	1	107
Gunilla Nordström, member	1	74
Total	718	735
Management remuneration, total	21 107	6 876

The holdings of Wäartsilä shares of the President and CEO, and the members of the Board of Directors and Board of Management at the year end were 97,605 shares (88,529).

The President and CEO is entitled to retire on reaching 63 years of age. The members of the Board of Management are entitled to retire on reaching the statutory retirement age. One member of the Board of Management is entitled to retire earlier, on reaching 60 years of age. The Group has no loan receivables from the executive management or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

Business transactions with the associated companies and joint ventures

MEUR	2017	2016
Sales to the associates and joint ventures	49	42
Purchases from the associates and joint ventures	53	63
Receivables from the associates and joint ventures	14	7
Advances paid to the associates and joint ventures	11	19
Payables to the associates and joint ventures	8	12

Detailed financial information on the associated companies and joint ventures is presented in Note 15. Investments in associates and joint ventures.

29. Financial risks

General

Wäartsilä has a centralised Group Treasury with two main objectives: 1) to arrange adequate funding for the Group's underlying operations on competitive terms and 2) to identify and evaluate the financial risks within the Group and implement the hedges for the Group companies.

The objective is to hedge against unfavorable changes in the financial markets and to minimise the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and shareholders' equity.

The Financial Risk Policy is approved by the Board of Directors. The Treasury employs only such instruments whose market value and risk profile can be reliably monitored.

Foreign exchange risk

Foreign exchange exposures are monitored at the Business level and then netted and hedged at Group level. All material fixed sales and purchase contracts are hedged. The estimated future commercial exposures are evaluated by the Businesses, and the level of hedging is decided by the Board of Management. Hedge accounting in accordance with IFRS is applied to most of the hedges of these exposures. The hedges cover such time periods that both the prices and costs can be adjusted to new exchange rates. These periods vary among Group companies from one month to two years. The Group also hedges its position of the statement of financial position, which includes receivables and payables denominated in foreign currencies. The Group does not expect significant losses from foreign exchange rate changes in 2017. The cancellation of orders could lead to ineffective currency hedge. Approximately 69% (67) of sales and 63% (59) of operating costs in 2017 were denominated in euros, and approximately 18% (20) of sales and 7% (8) of operating costs were denominated in US dollars. The remainder were split between several currencies. The Group's profits and competitiveness are also indirectly affected by the home currencies of its main competitors: USD, GBP, JPY and KRW.

Usually fixed sales and purchase contracts are hedged by using foreign exchange forwards to offset currency rate related changes to the value of the underlying cash flows. As the aim is to hedge and apply hedge accounting (cash flow hedging) only to the foreign exchange risk all interest rate/hedge timing related gains/losses are booked directly into the financial items. As the underlying cash flows can have long maturities, the related hedges can be done with shorter maturities and they can be rolled over when needed, so that at the maturity the total currency rate related gains/losses from these hedges are expected to fully offset the related gains/losses from the underlying cash flows. A cancellation or reduction of sales/purchase value of an order can cause the related hedge to be (partially) ineffective. Any ineffectiveness will be immediately recognised and booked into the financial items.

As hedges are typically done on short maturities (up to 1 year) and only high credit quality (A- minimum rating requirement) counterparties are utilised, counterparty credit risk is expected to have minimal effect on hedge valuations. Due to some underlying hedged cash flows having longer maturities than related hedges the change in present value of the hedge and underlying cash flow does not always fully offset each other during the lifetime of a hedge. This ineffectiveness is calculated on quarterly basis and will be booked on Group level in financial items.

The instruments, and their nominal values, used to hedge the Group's foreign exchange exposures are listed in Note 26. Derivative financial instruments.

Some Group companies in countries whose currencies are not fully convertible like Brazil have unhedged, intercompany loans nominated either in EUR or USD. Total amount of the loans is EUR 132 million (109).

Since Wärtsilä has subsidiaries and joint ventures outside the euro zone, the Group's equity, goodwill and purchase price allocations are sensitive to exchange rate fluctuations. At the end of 2017, the net assets of Wärtsilä's foreign subsidiaries and joint ventures outside the euro zone totalled EUR 1,011 million (1,071). In addition, goodwill and purchase price allocations from acquisitions nominated in foreign currencies amounted to EUR 825 million (613). In 2017, the translation differences recognised in OCI mainly come from changes in GBP exchange rate.

In 2017, EUR 1 million (-16) fair value adjustments related to cash flow hedges were recognised in equity. EUR -36 million (-58) of the fair value adjustments were transferred from equity to the statement of income as net sales or operating expenses during 2017. In 2017, the result from ineffective portion of the cash flow hedges was EUR -15 million (-8), which was booked in financial items and specified in Note 10. Financial income and expenses.

Currency forwards

MEUR	Fixed sales and purchase contracts	Net loans
Currency forwards		
USD	530	241
NOK	760	12
CHF	27	58
CNY	50	
JPY		8
SGD		2

DKK	4	6
GBP	11	53
Other*	15	33
Total	1 397	413

* Other does not include any material single currencies.

IFRS hedge accounting has been applied to EUR 1,962 million (1,468) currency forwards. A 5% change in the exchange rates would cause from these currency forwards an approximately EUR 38 million (55) impact on the equity. As all material fixed sales and purchase contracts are hedged, the profit and loss sensitivity of foreign exchange is considered immaterial.

MEUR	Gross amount	Net amount	Equity impact
Currency forwards under hedge accounting*			
USD	899	340	17
NOK	875	294	15
CNY	56	53	3
JPY	38	3	
GBP	35	26	1
CHF	29	18	1
Other	29	28	1
Total	1 962	762	38

* Intragroup transactions, on which the actual hedge accounting bookings are based.

MEUR	
Currency forwards, under hedge accounting	
31 December 2017	1 962
Hedged highly probable forecasted cash flows by year	
2018	1 388
2019	296
2020	113
2021	27
2022-	138

Interest rate risk

Wärtsilä is exposed to interest rate risk primarily through market value changes to the net debt portfolio (price risk) and also through changes in interest rates (re-fixing on rollovers). Wärtsilä hedges interest rate exposure by using derivative instruments such as interest rate swaps, futures and options. Changes in the market value of these derivatives are recognised directly in the statement of income. Interest rate risk is managed by constantly monitoring the market value of the financial instruments and by using sensitivity analysis.

Interest-bearing loan capital at the end of 2017 totalled EUR 619 million (629). The average interest rate was 1.3% (1.3) and the average re-fixing time 23 months (25). At the end of 2017, a one percentage point parallel decrease/increase of the yield curve would have resulted in a EUR 13 million (15) increase/decrease in the value of the net debt portfolio, including derivatives.

Loans

Wärtsilä spreads its interest rate risk exposure by taking both fixed and floating rate loans. The share of floating rate loans as a proportion of the total debt can vary between 30–70%.

MEUR	2017	2016
Fixed rate loans	330	329
Floating rate loans	289	300
Derivatives	105	105
Share of fixed rate loans of total loans (including derivatives), %	70	69

A one percentage point change in the interest level would cause a EUR 2 million (2) change in the following year's interest expenses of the debt portfolio, including derivatives.

Additional information related to loans can be found in Note 16. Financial assets and liabilities by measurement category and Note 24. Financial liabilities.

Liquidity and refinancing risk

Wärtsilä ensures sufficient liquidity at all times by efficient cash management and by maintaining sufficient committed and uncommitted credit lines available. Refinancing risk is managed by having a balanced and sufficiently long loan portfolio.

The existing funding programmes include:

- Committed Revolving Credit Facilities totalling EUR 640 million (640).
- Finnish Commercial Paper programmes totalling EUR 800 million (800).

The average maturity of the non-current debt is 44 months (43) and the average maturity of the confirmed credit lines is 28 months (33). Additional information in Note 24. Financial liabilities.

At the year end, the Group had cash and cash equivalents totalling EUR 379 million (472) as well as EUR 640 million (640) non-utilised committed credit facilities. In addition a signed EUR 125 million long term loan was available for disbursement as of 31 December 2017. Commercial Paper Programmes were not utilised on 31 December 2017 nor on 31 December 2016.

Committed Revolving Credit Facilities as well as the Parent Company's long term loans include a financial covenant (solvency ratio). Solvency ratio is expected to remain clearly over the covenant level for the foreseeable future.

Revolving credit facilities

MEUR		
Year	Maturing	Available (end of period)
2017		640
2018	160	480
2019	110	370
2020	110	260
2021	130	130
2022	130	

Credit risk

The responsibility for managing the credit risks associated with ordinary commercial activities lies with the Businesses and the Group companies. Major trade and project finance credit risks are minimised by transferring risks to banks, insurance companies and export credit organisations.

The credit risks related to the placement of liquid funds and to trading in financial instruments are minimised by setting explicit limits for the counterparties and by making agreements only with the most reputable domestic and international banks and financial institutions.

The Group companies deposit the maximum amount of their liquid financial assets with the centralised treasury when local laws and central bank regulations allow it. The Group's funds are placed in instruments with sufficient liquidity (current bank deposits or Finnish Commercial Papers) and rating (at least single-A rated instruments or other instruments approved by the Group's CFO). These placements are constantly monitored by the Group Treasury, and Wartsilä does not expect any future defaults from the placements.

The expected credit losses associated with investments carried at amortised cost are assessed on a forward looking basis based on investment maturity dates and counterparty credit risk on quarterly basis. As of 31 December 2017 the expected credit loss was not material.

Aging of trade receivables

For trade receivables and receivables from revenue recognition in accordance with percentage of completion method, simplified approach is used and the loss allowance is measured at the estimate of the lifetime expected credit losses. Receivables from revenue recognition in accordance with percentage of completion method are usually covered with advance payments collected from customers. Thus, recognising credit losses based on the lifetime expected loss amounts mainly concerns trade receivables. For trade receivables not due or maximum 359 days overdue, an impairment of 0.1%–2.0% is made, depending on the aging category and the origin of the receivable. In calculating the expected credit loss rates, the company considers historical loss rates for each category, and adjusts for forward looking macroeconomic data. In addition to that, trade receivables more than 360 days old are assessed for impairment individually.

MEUR	2017		2016	
	Trade receivables	of which impaired	Trade receivables	of which impaired
Not past due	951	1	763	1
Past due 1–30 days	122		124	
Past due 31–180 days	189	6	154	3
Past due 181–360 days	33	2	59	3
Past due 1 year	184	53	191	51
Total	1 478	62	1 291	58

In 2017, the result impact of write-offs was EUR -9 million (-10).

Impairments

MEUR	2017	2016
Impairment, beginning of period	58	63
Other movements	-4	-14
Impairment during the period	9	10
Impairment, end of period	62	58

The Group sells trade receivables in an amount that is currently not significant compared to the trade receivables as a whole. Sold receivables have been de-recognised in the consolidated statement of financial position.

Equity price risk

Wartsilä has equity investments totalling EUR 10 million (12) in power plant companies, most of which are located in developing countries and performing well according to expectations. Additional information in Note 16. Financial assets and liabilities by measurement category.

Capital risk management

Wartsilä's policy is to secure a strong capital base to keep the confidence of investors and creditors and for the future development of the business. The capital is defined as total equity including non-controlling interests and net interest-bearing debt. The target for Wartsilä is to maintain gearing below 0.50 and to pay a dividend of at least 50% of earnings over the cycle.

MEUR	31.12.2017	31.12.2016
Interest-bearing liabilities, non-current	517	520
Interest-bearing liabilities, current	102	108
Cash and cash equivalents	-379	-472
	239	157
Loan receivables	-5	-7
Net interest-bearing debt	234	150
Total equity	2 396	2 321
Gearing	0.10	0.07
In the capital management Wärtsilä also follows the gearing development:		
Equity and liabilities	5 607	5 391
Advances received	-522	-516
	5 085	4 874
Solvency ratio, %	47.1	47.6

30. Auditors' fees and services

The following remuneration was paid to auditors and accounting firms for audit based on applicable legislation and for other services.

In 2017, the AGM appointed the audit firm PricewaterhouseCoopers Oy as Wärtsilä Corporation's auditor. PricewaterhouseCoopers Oy has provided non-audit services to entities of Wärtsilä Group in total 110 thousand euros. These services included tax services (55 thousand euros) and other services (55 thousand euros).

MEUR	2017		2016	
	PwC	Others	KPMG	Others
Audit	3.0	0.7	3.3	0.2
Tax advisory	0.1	0.3	0.9	0.2
Other services	0.1	0.1	0.4	0.1
Total	3.2	1.1	4.6	0.5

31. Exchange rates

In the consolidated financial statements there are approximately 60 currencies consolidated. The most significant currencies are presented here.

		31 December 2017	Closing rates 31 December 2016	2017	Average rates 2016
AED	United Arab Emirates Dirham	4.40503	3.87108	4.14735	4.05145
BRL	Brazil Real	3.97290	3.43050	3.60410	3.86195
CHF	Switzerland Franc	1.17020	1.07390	1.11155	1.09018
CNY	China Yuan Renminbi	7.80440	7.32020	7.62644	7.34958
DKK	Danish krone	7.44490	7.43440	7.43865	7.44536
GBP	United Kingdom Pound	0.88723	0.85618	0.87615	0.81890
INR	India Rupee	76.60550	71.59350	73.49802	74.35528
JPY	Japan Yen	135.01000	123.40000	126.65457	120.31377
NOK	Norway Krone	9.84030	9.08630	9.32861	9.29269
SAR	Saudi Arabian Riyal	4.49738	3.95361	4.23474	4.13639
SEK	Sweden Krona	9.84380	9.55250	9.63687	9.46731
SGD	Singapore Dollar	1.60240	1.52340	1.55822	1.52778
USD	United States Dollar	1.19930	1.05410	1.12928	1.10660

32. Subsidiaries

Geographical area	Company name	Location	Activities	Share %
Europe	Wärtsilä Cyprus Limited	Cyprus	Sales and services	100.0
	Wärtsilä Danmark A/S	Denmark	Sales and services	100.0
	Wärtsilä Lyngsø Marine A/S	Denmark	Sales and services	100.0
	Wärtsilä Svanehoj A/S	Denmark	Production, sales and services	100.0
	Wärtsilä Puregas Solutions A/S	Denmark	Sales and services	100.0
	Wärtsilä BLRT Estonia OÜ	Estonia	Sales and services	51.7
	Eniram Oy	Finland	Sales and services	100.0
	Wärtsilä Finland Oy	Finland	Production, sales and services	100.0
	Wärtsilä Projects Oy	Finland	Sales and services	100.0
	Wärtsilä Solutions Oy	Finland	Sales and services	100.0
	Wärtsilä Technology Oy Ab	Finland	Holding	100.0
	Wärtsilä France S.A.S.	France	Sales and services	100.0
	Eniram Germany GmbH	Germany	Sales and services	100.0
	Wärtsilä Puregas Solutions GmbH	Germany	Sales and services	100.0
	Wärtsilä Deutschland GmbH	Germany	Sales and services	100.0
	Wärtsilä ELAC Nautik GmbH	Germany	Sales and services	100.0
	Wärtsilä Funa International GmbH	Germany	Sales and services	100.0
	Wärtsilä JOVYATLAS EUROATLAS GmbH	Germany	Sales and services	100.0
	Wärtsilä SAM Electronics GmbH	Germany	Sales and services	100.0
	Wärtsilä SAM Electronics Nederland B.V.	Germany	Sales and services	100.0

	Wärtsilä Serck Como GmbH	Germany	Production, sales and services	100.0
	Guidance Marine Ltd	Great Britain	Sales and services	100.0
	Guidance Navigation Holdings Ltd	Great Britain	Holding	100.0
	Wärtsilä Puregas Solutions Ltd	Great Britain	Sales and services	100.0
	Vulcan Insurance PCC Limited	Great Britain	Sales and services	100.0
	Wärtsilä Hamworthy Ltd	Great Britain	Sales and services	100.0
	Wärtsilä UK Ltd	Great Britain	Production, sales and services	100.0
	Wärtsilä Valves Ltd	Great Britain	Production, sales and services	100.0
	Wärtsilä Water Systems Ltd	Great Britain	Production, sales and services	100.0
	Wärtsilä Greece S.A.	Greece	Sales and services	100.0
	Wärtsilä Hungary Kft	Hungary	Sales and services	100.0
	Wärtsilä APSS Srl	Italy	Sales and services	100.0
	Wärtsilä Italia S.p.A.	Italy	Production, sales and services	100.0
	Wärtsilä Moss AS	Norway	Production, sales and services	100.0
	Wärtsilä Norway AS	Norway	Production, sales and services	100.0
	Wärtsilä Oil & Gas Systems AS	Norway	Sales and services	100.0
	Wärtsilä Ship Design Norway AS	Norway	Sales and services	100.0
	Wärtsilä Valmarine AS	Norway	Sales and services	100.0
	Wärtsilä Baltic Design Centre Sp.z.o.o.	Poland	Sales and services	100.0
	Wärtsilä Polska Sp.z.o.o.	Poland	Sales and services	100.0
	Wärtsilä Ship Design Poland Sp.z.o.o.	Poland	Sales and services	100.0
	Wärtsilä Portugal Lda.	Portugal	Sales and services	100.0
	Wärtsilä Vostok, LLC	Russia	Sales and services	100.0
	Wärtsilä Ibérica S.A.	Spain	Production, sales and services	100.0
	Wärtsilä Puregas Solutions AB	Sweden	Sales and services	100.0
	Wärtsilä Sweden AB	Sweden	Production, sales and services	100.0
	Wärtsilä Services Switzerland AG	Switzerland	Sales and services	100.0
	Quantiparts B.V.	The Netherlands	Sales and services	100.0
	Wärtsilä Kampen Real Estate B.V.	The Netherlands	Real estate	100.0
	Wärtsilä Netherlands B.V.	The Netherlands	Production, sales and services	100.0
	Wärtsilä Ukraine LLC	Ukraine	Sales and services	100.0
The Americas	Antigua Energy Operators Ltd	Antigua and Barbuda	Sales and services	100.0
	Wärtsilä Argentina S.A.	Argentina	Sales and services	100.0
	Wärtsilä Brasil Ltda.	Brazil	Production, sales and services	100.0
	Wärtsilä Canada Inc.	Canada	Sales and services	100.0
	Wärtsilä Chile Ltda.	Chile	Sales and services	100.0
	Wärtsilä Colombia S.A.	Colombia	Sales and services	100.0
	Wärtsilä Dominicana Inc.	Dominican Republic	Sales and services	100.0
	Wärtsilä Ecuador S.A.	Ecuador	Sales and services	100.0
	Wärtsilä Guatemala S.A.	Guatemala	Sales and services	100.0
	Wärtsilä Operations Guyana Inc.	Guyana	Sales and services	100.0
	Wärtsilä de Mexico SA	Mexico	Sales and services	100.0
	Wärtsilä Panama Services S.A.	Panama	Sales and services	100.0
	Wärtsilä Peru S.A.C.	Peru	Sales and services	100.0
	Wärtsilä Caribbean, Inc.	Puerto Rico	Sales and services	100.0
	Wärtsilä Uruguay S.A.	Uruguay	Sales and services	100.0
	American Hydro Corporation	USA	Sales and services	100.0
	Greensmith Energy Management Systems Inc.	USA	Sales and services	100.0
	Guidance Marine LLC	USA	Sales and services	100.0

	Puregas Solutions LLC	USA	Sales and services	100.0
	Wärtsilä Defence Inc.	USA	Sales and services	100.0
	Wärtsilä Dynamic Positioning Inc.	USA	Sales and services	100.0
	Wärtsilä North America, Inc.	USA	Sales and services	100.0
	Wärtsilä Venezuela, C.A.	Venezuela	Sales and services	100.0
Asia	PT. Wärtsilä Indonesia	Indonesia	Sales and services	100.0
	Wärtsilä Azerbaijan LLC	Azerbaijan	Sales and services	100.0
	Wärtsilä Bangladesh Ltd.	Bangladesh	Sales and services	100.0
	SAM Taihang Electronics Ltd.	China	Sales and services	100.0
	Wärtsilä Propulsion (Wuxi) Co. Ltd.	China	Production, sales and services	100.0
	Wärtsilä Services (Shanghai) Co. Ltd.	China	Sales and services	100.0
	Wärtsilä Ship Design (Shanghai) Co., Ltd	China	Sales and services	95.0
	Wärtsilä Suzhou Ltd.	China	Production, sales and services	100.0
	Wärtsilä Yuchai Engine Co. Ltd.	China	Production, sales and services	50.0
	Wärtsilä-CME Zhenjiang Propeller Co. Ltd.	China	Production, sales and services	55.0
	Wärtsilä China Ltd.	Hong Kong	Sales and services	100.0
	Wärtsilä India Ltd.	India	Production, sales and services	100.0
	Wärtsilä Japan Ltd.	Japan	Production, sales and services	99.7
	Wärtsilä (Malaysia) Sdn Bhd	Malaysia	Sales and services	100.0
	Wärtsilä Pakistan (Pvt.) Ltd.	Pakistan	Sales and services	100.0
	Wärtsilä Philippines Inc.	Philippines	Sales and services	100.0
	Wärtsilä Doha WLL	Qatar	Sales and services	100.0
	Wärtsilä Power Contracting Saudi Arabia Ltd.	Saudi Arabia	Sales and services	60.0
	Guidance Marine Pte Ltd	Singapore	Sales and services	100.0
	Wärtsilä Pumps Pte. Ltd.	Singapore	Production, sales and services	100.0
	Wärtsilä Ship Design Singapore Pte Ltd	Singapore	Sales and services	100.0
	Wärtsilä Singapore Pte Ltd	Singapore	Sales and services	100.0
	Wärtsilä Korea Ltd.	South Korea	Sales and services	100.0
	Wärtsilä Marine Systems Korea Co Ltd.	South Korea	Sales and services	100.0
	Wärtsilä Lanka Ltd.	Sri Lanka	Sales and services	100.0
	Wärtsilä Taiwan Ltd.	Taiwan	Sales and services	100.0
	Wärtsilä-Enpa A.S.	Turkey	Sales and services	51.0
	Wärtsilä Gulf FZE	United Arab Emirates	Sales and services	100.0
	Wärtsilä Hamworthy Middle East (FZE)	United Arab Emirates	Sales and services	100.0
	Wärtsilä LLC	United Arab Emirates	Sales and services	100.0
	Wärtsilä Ships Repairing & Maintenance LLC	United Arab Emirates	Sales and services	100.0
	Wärtsilä Vietnam Co Ltd.	Vietnam	Sales and services	100.0
Other	Wärtsilä Australia Pty Ltd.	Australia	Sales and services	100.0
	Wärtsilä Central Africa Ltd.	Cameroon	Sales and services	100.0
	Wärtsilä Egypt Power S.A.E	Egypt	Sales and services	100.0
	Wärtsilä Central Africa Gabon	Gabon	Sales and services	100.0
	Wärtsilä West Africa Guinea	Guinea	Sales and services	100.0
	Wärtsilä Eastern Africa S.A.	Kenya	Sales and services	100.0
	Wärtsilä Mocambique LDA	Mozambique	Sales and services	100.0
	Wärtsilä New Zealand Ltd	New Zealand	Sales and services	100.0
	Wärtsilä Marine & Power Services Nigeria Limited	Nigeria	Sales and services	100.0
	Wärtsilä PNG Ltd	Papua New Guinea	Sales and services	100.0

Wärtsilä West Africa S.A.	Senegal	Sales and services	100.0
Wärtsilä South Africa (Pty) Ltd.	South Africa	Sales and services	100.0
Wärtsilä Tanzania Ltd	Tanzania	Sales and services	100.0
Wärtsilä Uganda Ltd.	Uganda	Sales and services	100.0

Non-controlling interests are not significant in the Group's activities and cash flows in individual subsidiaries.

The list excludes subsidiaries, which do not have an impact on the profit or assets of the Group. A complete list of shares and securities in accordance with the Finnish Accounting Ordinance is included in the official financial statements of the parent company prepared with the Finnish Accounting Standards (FAS).

33. Events after the balance sheet date

Wärtsilä strengthens its service offering by acquiring Trident B.V., a Netherland based company specialised in underwater ship maintenance, inspection, and repair services. Through the acquisition Wärtsilä becomes the first global operator in the underwater services market as well as builds in-house competence, captures the full potential of services' product synergies, and strengthens its position in the market.

The enterprise value of the transaction is EUR 17.5 million and an additional EUR 3.5 million earn-out, based on the business performance in the coming years. The turnover of Trident is approximately EUR 9 million.

Parent company financial statements

Parent company income statement (FAS)

MEUR	2017	2016	Note
Other operating income	72	74	<u>1</u>
Personnel expenses	-63	-33	<u>2</u>
Depreciation, amortisation and impairments	-4	-6	<u>3</u>
Other operating expenses	-91	-75	
Operating result	-87	-40	
Financial income and expenses			<u>4</u>
Income from financial assets	146	286	
Interest income and other financial income	41	39	
Exchange gains and losses	1	2	
Interest expenses and other financial expenses	-38	-36	
	151	290	
Result before appropriations and taxes	64	250	
Change in depreciation difference	1	1	
Group contribution	99	34	
Result before taxes	164	286	
Income taxes	-3	-4	<u>5</u>
Result for the financial period	161	282	

Parent company balance sheet (FAS)

MEUR	2017	2016	Note
ASSETS			
Fixed assets			<u>6</u>
Intangible assets			
Other long-term expenditure	6	9	
Construction in progress	2		
	8	9	
Tangible assets			
Land and water	7	7	
Buildings and structures	1	1	
Machinery, equipment and other tangible assets	2	1	
	9	9	
Financial assets			
Shares in Group companies	950	950	
Other shares and securities	1	2	
	951	951	
Total fixed assets	968	969	
Non-current receivables			
Receivables from Group companies	104	103	<u>7</u>
Loan receivables	1	1	
	105	104	
Current receivables			
Receivables from Group companies	1 786	1 996	<u>8</u>
Other receivables	2	7	
Prepaid expenses and accrued income	35	16	<u>9</u>
		2 020	
Cash and bank balances	195	304	
Total current assets	2 123	2 428	
Assets	3 090	3 398	

MEUR	2017	2016	Note
EQUITY AND LIABILITIES			
Equity			<u>10</u>
Share capital	336	336	
Share premium reserve	61	61	
Retained earnings	841	816	
Result for the financial period	161	282	
Total equity	1 399	1 494	
Accumulated appropriations			
Depreciation difference	2	2	
Provisions	16	19	
Liabilities			<u>11</u>
Non-current			
Loans from credit institutions	508	500	
Loans from pension insurance companies		8	
	508	508	
Current			
Loans from credit institutions	75	88	
Loans from pension insurance companies	8	10	
Trade payables	10	6	
Liabilities to Group companies	985	1 207	<u>13</u>
Other current liabilities	1	2	
Accrued expenses and deferred income	85	62	<u>12</u>
	1 165	1 374	
Total liabilities	1 673	1 882	
Equity and liabilities	3 090	3 398	

Parent company cash flow statement (FAS)

MEUR	2017	2016
Cash flow from operating activities:		
Result before appropriations and taxes	64	250
Adjustments for:		
Depreciation and amortisation	4	6
Gains and losses on sale of intangible and tangible assets		-1
Financial income and expenses	-151	-289
Cash flow before changes in working capital	-82	-35
Changes in working capital:		
Assets, non-interest-bearing, increase (-) / decrease (+)	-9	18
Liabilities, non-interest-bearing, increase (+) / decrease (-)	39	-27
	30	-9
Cash flow from operating activities before financial items and taxes	-52	-44
Interest and other financial expenses	-37	-35
Dividends received from operating activities	146	286
Interest and other financial income from operating activities	41	39
Income taxes paid	-3	9
	148	298
Cash flow from operating activities	96	254
Cash flow from investing activities:		
Investments in tangible and intangible assets	-3	-3
Proceeds from sale of other investments	1	
Proceeds from sale of tangible and intangible assets		3
Cash flow from investing activities	-2	1
Cash flow after investing activities	93	255

Cash flow from financing activities:		
Loans receivables, increase (-) / decrease (+)	270	130
Current loans, increase (+) / decrease (-)	-242	-103
Proceeds from non-current borrowing	90	130
Repayments and other changes of non-current loans	-99	-84
Group contributions	34	53
Dividends paid	-256	-237
Cash flow from financing activities	-203	-110
Change in cash and bank balances, increase (+) / decrease (-)		
	-110	145
Cash and bank at beginning of period	304	159
Cash and bank at end of period	195	304

Accounting principles for the parent company

The financial statements of the parent company, Wärtsilä Corporation, have been prepared in accordance with the provisions of the Finnish Accounting Standards (FAS).

The preparation of the financial statements requires management, in compliance with the regulations in force and good accounting practice, to make estimates and assumptions that affect the measurement and timing of the reported information. Actual results may differ from these estimates.

Transactions denominated in foreign currencies and derivatives

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Exchange gains and losses related to business operations are treated as adjustments to other operating income and operating expenses. Exchange gains and losses related to financing operations are entered under financial income and expenses.

Derivatives are measured at fair value. Open currency derivatives, including interest components, are valued at the balance sheet date. The fair value of interest rate swaps is calculated by discounting the future cash flows. Derivative changes in fair value are immediately recognised in financial income or expenses in the statement of income.

Research and development costs

Research and development costs are expensed in the financial period in which they occur.

Receivables

Receivables are valued to acquisition cost or to a lower probable value.

Fixed assets and depreciation and amortisation

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation and amortisation. Certain land areas also include revaluations.

Depreciation and amortisation is based on the following useful lives:

Other long-term expenditure	3–10 years
Buildings	20–40 years
Machinery and equipment	5–20 years

Leasing

Lease payments are treated as rentals.

Provisions

Provisions in the balance sheet comprise those items which the company is committed to covering either through agreements or otherwise, but which are not yet realized. Changes to provisions are included in the income statement.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, as well as adjustments to taxes in prior years. Taxes allocated to extraordinary items are shown in the notes to the financial statements.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

Notes to the parent company financial statements

1. Other operating income

MEUR	2017	2016
Rental income	1	1
Services to Group companies	71	71
Profit on sales of fixed assets		1
Other	1	1
Total	72	74

2. Personnel expenses

MEUR	2017	2016
Wages and salaries	-57	-27
Pension costs	-5	-4
Other compulsory personnel costs	-1	-2
Total	-63	-33

Salaries and remunerations paid to senior management

The President and CEO and his deputy and members of the Board of Directors	-3	-4
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The President and CEO has the right to retire at the age of 63 years. The members of the Board of Management are entitled to retire on reaching the statutory retirement age. One member of the Board of Management is entitled to retire earlier, on reaching 60 years of age.

The Company's Board of Directors decides the remunerations of the President and CEO and his immediate subordinates.

Additional information about Management remuneration can be found in Consolidated Financial Statements Note 28.

Personnel on average during the year	324	282
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3. Depreciation and amortisation

MEUR	2017	2016
Depreciation and amortisation according to plan		
Other long-term expenditure	-4	-5
Total depreciation according to plan	-4	-6
Tax depreciations	-4	-5
Depreciation difference	1	1
Depreciation difference		

Depreciation difference on 1 January	2	3
Change in the depreciation difference	-1	-1
Depreciation difference on 31 December	2	2

4. Financial income and expenses

MEUR	2017	2016
Dividend income		
From Group companies	146	286
Total	146	286
Other interest income		
From Group companies	22	23
From other companies	1	
Total	22	23
Other financial income		
From Group companies	10	9
From other companies	9	6
Total	19	15
Exchange gains and losses	1	2
Interest expenses		
To Group companies	-5	-5
To other companies	-8	-9
Total	-13	-14
Other financial expenses		
To Group companies	-10	-7
To other companies	-15	-16
Total	-25	-22
Financial income and expenses, total	151	290

5. Income taxes

MEUR	2017	2016
Income taxes		
For the financial period	-3	-2
For prior financial periods		-2
Total	-3	-4

6. Fixed assets

Intangible assets

MEUR	Other long-term expenditures	Construction in progress	Total 2017	Total 2016
Acquisition cost at January 1	122		122	121
Additions	1	2	3	1
Disposals	-1		-1	-1
Acquisition cost at December 31	121	2	123	122
Accumulated amortisation at January 1	-113		-113	-109
Accumulated amortisation on disposals and other changes	1		1	1
Amortisation during the financial period	-4		-4	-5
Accumulated amortisation at December 31	-115		-115	-113
Carrying amount at 31 December 2017	6	2	8	
Carrying amount at 31 December 2016	9			9

Tangible assets

MEUR	Land and water	Buildings and structures	Machinery, equipment and other tangible assets	Total 2017	Total 2016
Acquisition cost at January 1	7	2	4	13	14
Additions			1	1	1
Disposals					-2
Acquisition cost at December 31	7	2	4	13	13
Accumulated depreciation at January 1		-2	-3	-4	-4
Accumulated depreciation at December 31		-2	-3	-5	-4
Carrying amount at 31 December 2017	7	1	2	9	
Carrying amount at 31 December 2016	7	1	1		9

Shares and securities

MEUR	Shares in Group companies	Shares in other companies	Total 2017	Total 2016
Acquisition cost at January 1	950	2	951	951
Disposals		-1	-1	
Acquisition cost at December 31	950	1	951	951
Carrying amount at 31 December 2017	950	1	951	
Carrying amount at 31 December 2016	950	2		951

7. Non-current receivables

MEUR	2017	2016
Receivables from Group companies		
Loan receivables	104	103
Total	104	103

8. Current receivables from Group companies

MEUR	2017	2016
Trade receivables	6	7
Loan receivables	1 657	1 928
Derivatives	19	24
Other receivables	99	34
Prepaid expenses and accrued income	4	3
Total	1 786	1 996

9. Prepaid expenses and accrued income

MEUR	2017	2016
Derivatives	32	11
Other financial items	1	1
Insurance receivables		1
Other	3	2
Total	35	16

10. Shareholders' equity

MEUR	2017	2016
Share capital		
Share capital on January 1	336	336
Share capital on December 31	336	336
Share premium reserve		
Share premium reserve on January 1	61	61
Share premium reserve on December 31	61	61
Retained earnings		
Retained earnings on January 1	1 097	1 053
Dividends paid	-256	-237
Result for the financial period	161	282
Retained earnings on December 31	1 002	1 097
Total shareholders' equity	1 399	1 494
Distributable equity	1 002	1 097

11. Liabilities

MEUR	2017	2016
Non-current		
Interest-bearing	508	508
Total	508	508
Current		
Non-interest-bearing	133	84
Interest-bearing	1 032	1 290
Total	1 165	1 374

Debt with maturity profile

2017 MEUR	Long-term			Total
	Current <1 year	1-5 years	>5 years	
Loans from financial institutions	75	342	166	583
Loans from pension institutions	8			8
Total	83	342	166	591

2016 MEUR	Current	Long-term		Total
	<1 year	1-5 years	>5 years	
Loans from financial institutions	88	314	185	588
Loans from pension institutions	10	8		18
Total	99	322	185	606

12. Accrued expenses and deferred income

MEUR	2017	2016
Derivatives	45	44
Personnel costs	35	12
Interest and other financial items	3	3
Other	4	3
Total	85	62

13. Liabilities to Group companies

MEUR	2017	2016
Trade payables	3	6
Other current liabilities	950	1 191
Derivatives	29	9
Accrued expenses and deferred income	3	1
Total	985	1 207

14. Financial assets and liabilities by measurement category

2017

MEUR	Measured at amortised cost	At fair value through the statement of income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets				
Interest-bearing receivables from Group companies	103		103	103
Other receivables	1		1	1
Current financial assets				
Interest-bearing receivables from Group companies	1 657		1 657	1 657
Trade receivables from Group companies	6		6	6
Derivatives		32	32	32

Derivatives from Group companies		19	19	19
Other receivables	2		2	2
Other receivables from Group companies	3		3	3
Cash equivalents	16		16	16
Cash and bank	179		179	179
Carrying amount by category	1 969	51	2 019	2 019
Non-current financial liabilities				
Interest-bearing debt	508		508	515
Current financial liabilities				
Interest-bearing debt	83		83	83
Interest-bearing debt to Group companies	950		950	950
Trade payables	10		10	10
Trade payables to Group companies	3		3	3
Derivatives		45	45	45
Derivatives to Group companies		29	29	29
Other liabilities	3		3	3
Other liabilities from Group companies	1		1	1
Carrying amount by category	1 557	74	1 631	1 639

Information about fair value hierarchy and valuation principle can be found in in Consolidated Financial Statements Note 16.

2016

MEUR	Measured at amortised cost	At fair value through the statement of income	Carrying amounts of the statement of financial position items	Fair value
Non-current financial assets				
Interest-bearing receivables from Group companies	103		103	103
Other receivables	1		1	1
Current financial assets				
Interest-bearing receivables from Group companies	1 928		1 928	1 928
Trade receivables from Group companies	7		7	7
Derivatives		11	11	11
Derivatives from Group companies		24	24	24
Other receivables	8		8	8
Other receivables from Group companies	3		3	3
Cash equivalents	123		123	123
Cash and bank	181		181	181
Carrying amount by category	2 355	35	2 390	2 390
Non-current financial liabilities				
Interest-bearing debt	508		508	518
Current financial liabilities				
Interest-bearing debt	99		99	99
Interest-bearing debt to Group companies	1 191		1 191	1 191
Trade payables	6		6	6
Trade payables to Group companies	6		6	6
Derivatives		44	44	44

Derivatives to Group companies		9	9	9
Other liabilities	3		3	3
Carrying amount by category	1 812	53	1 865	1 876

Information about fair value hierarchy and valuation principle can be found in in Consolidated Financial Statements Note 16.

15. Derivative financial instruments

MEUR	With external financial institutions	With Group companies	Total 2017
Nominal values of derivative financial instruments			
Currency forwards, transaction risk	1 927	1 707	3 635
Interest rate swaps	165		165
Cross currency swaps	74		74
			3 874
Fair values of derivative financial instruments			
Currency forwards, transaction risk	6	-10	-4
Interest rate swaps	-2		-2
Cross currency swaps	-17		-17
Total			-23

MEUR	With external financial institutions	With Group companies	Total 2016
Nominal values of derivative financial instruments			
Currency forwards, transaction risk	1 573	1 190	2 763
Interest rate swaps	165		165
Cross currency swaps	81		81
			3 009
Fair values of derivative financial instruments			
Currency forwards, transaction risk	-22	18	-4
Interest rate swaps	-4		-4
Cross currency swaps	-10		-10
Total			-18

Foreign currency forward contracts are against transactional risks and are matched against the hedged cashflows. Interest rate swaps are denominated in euros and their average interest-bearing period is 18 (26) months. The average maturity for cross currency swaps is 40 (53) months.

16. Financial risks

General

Wärtsilä has a centralised Group Treasury with two main objectives: 1) to arrange adequate funding for the Group's underlying operations on competitive terms and 2) to identify and evaluate the financial risks within the Group and implement the hedges for the Group companies. Group Treasury is organizationally within the Parent Company.

The details about the management of the Group's financial risks are in the Note 30 of the Consolidated Financial statements. As the Group's liquidity and interest rate risks are managed at the parent company level the group reporting applies fully to the Parent Company.

Foreign exchange risk

Operative foreign currency risks are followed and hedged at the subsidiary level. Group Treasury acts as a counterparty to these hedges, if that is allowed by local regulations. To enable netting of intragroup currency flows and to reduce the amount of external transactions Group Treasury is allowed to have minor unhedged exposures in different currencies. Any gains/losses from Group Treasury's operations are booked directly into the financial items and we do not expect any material foreign exchange gains/losses from Group Treasury's operations.

17. Collateral, contingent liabilities and other commitments

MEUR	2017	2016
	Debt in	Debt in
	balance sheet	balance sheet
Guarantees and contingent liabilities		
On behalf of Group companies	737	921
Total	737	921
Future nominal lease payments		
Payable within one year	3	2
Payable after one year	36	13
Total	39	16

18. Related party loans and other commitments

There are no loans receivables from senior management and the members of the Board of Directors. No pledges or other commitments were given on behalf of senior management or shareholders. In Note 28 in Consolidated Financial Statements, related party disclosures are specified. Related parties comprise the Board of Directors, the President and CEO, the Board of Management as well as the associated companies and joint ventures. In Notes 8 and 13 in Parent Company financial statement, receivables and liabilities from Group companies are specified.

19. Auditors' fees and services

The following fees were paid to auditors and accounting firms for audits and other services.

In 2017, the AGM appointed the audit firm PricewaterhouseCoopers Oy as Wärtsilä Corporation's auditor.

Auditors' fees

TEUR	2017	2016
Audit	399	158
Tax advisory		200
Other services	85	116
Total	484	474

Proposal of the Board

The parent company's distributable funds total EUR 1,002,092,268.56, which includes EUR 161,085,555.55 in net profit for the year. There are 197,241,130 shares with dividend rights. The Board of Directors proposes to the Annual General Meeting that the company's distributable earnings be disposed of in the following way:

EUR

A dividend of EUR 1.38 per share be paid, making a total of	272 192 759.40
That the following sum be retained in shareholders' equity	729 899 509.16
Totalling	1 002 092 268.56

The dividend shall be paid in two instalments. The first instalment, EUR 0.69 per share, shall be paid on 19 March 2018. The Board of Directors shall make a decision on the payment day of the second instalment in its meeting scheduled for 18 September 2018. As per the current rules of the Finnish book-entry system the payment day of the second instalment shall then be 27 September 2018.

If the general meeting approves the Board's proposal concerning a share issue without payment, the second instalment will be divided between one old and two new shares so that EUR 0.23 will be paid on each share. If the general meeting does not approve the share issue without payment proposed by the Board, the second instalment will be EUR 0.69 per share.

No significant changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good and in the opinion of the Board of Directors the proposed dividend will not put the company's solvency at risk.

Helsinki, Finland, 30 January 2018

Mikael Lilius
Maarit Aarni-Sirviö
Karin Falk
Risto Murto
Jaakko Eskola, President and CEO

Tom Johnstone
Kaj-Gustaf Bergh
Johan Forssell
Markus Rauramo

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Wärtsilä Corporation

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Wärtsilä Corporation (business identity code 0128631-1) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 30 to the Financial Statements.

Our Audit Approach Overview



- We have applied an overall group materiality of € 24 million.
- The group audit scope included Wärtsilä Corporation parent company and all significant operating companies, as well as a large number of smaller companies, covering the vast majority of revenues, assets and liabilities.
- Revenue recognition of long-term contracts
- Valuation of goodwill
- Business combinations
- Valuation of trade receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 24 million
How we determined it	5 % of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, the performance of the Group is most commonly measured by using this criteria, and it is a generally accepted benchmark.

How we tailored our group audit scope

The group audit scope was tailored to take into account the structure of the Group and the size, complexity and risk of individual subsidiaries. Using this criteria we selected companies and accounts into our audit scope and at the same time ensured that we get sufficient coverage to our audit, in order to issue an audit opinion for the Group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
<p>Revenue recognition of long-term contracts</p> <p>Refer to accounting policies for the consolidated financial statements and notes 1 and 4. The group has significant revenue from construction contracts and long-term operating and maintenance agreements. These long-term contracts are often complex customised solutions and meet the definition of a construction contract (IAS 11). Revenue related to these construction contracts is recognised using the percentage of completion method, where progress is determined by comparing actual costs incurred to date, with the total estimated costs of the project. In some gas solution projects the percentage of completion is assessed with reference to surveys of work performed. For long-term operating and maintenance agreements the progress is measured by the proportion of the contracted services performed. Revenue recognition for construction contracts includes management judgment in a form of estimates, which are subject to management experience and expectations of future events. The</p>	<p>Our revenue testing included both testing of the company's controls, as well as substantive audit procedures targeted at selected major long-term projects. Our substantive testing focused on estimates applied by management in the accounting. Our procedures included, among others things, the following:</p> <ul style="list-style-type: none"> • Ensured that the revenue recognition method applied was appropriate based on the terms of the arrangement; • Agreed the total project revenue estimates to sales agreements, including amendments as appropriate; • We obtained an understanding of the processes and tested relevant controls, which impact the revenue recognition; • We assessed the reliability of management's estimates by comparing the actual results of delivered projects to previous estimates;

most important judgment relates to the estimated total costs of the project. Revenue recognition of long-term contracts is a key audit matter in the audit due to the high level of management judgement involved in the project estimates.

- **We challenged the management estimates and assumptions in projects, which were considered to include specific risk factors; and**
- **Recalculated the revenue based on the stage of completion of the projects. Ensured that the stage of completion is correct by comparing actual costs per the company's accounting records to the estimated total costs of the projects. When other methods were used to determine the stage of completion, we obtained appropriate evidence based on the circumstances to conclude whether it was appropriate.**

Valuation of goodwill

Refer to accounting policies for the consolidated financial statements and note 13.

Goodwill is one of the most significant balance sheet items and amounts to € 1 237 million. The determination on which cash generating unit level the goodwill is tested and whether an impairment charge is required involves significant management judgement, including estimating the future performance of the business and the discount rate applied to these future cash flows.

Valuation of goodwill is a key audit matter in the audit due to the size of the goodwill balance and the high level of management judgement involved.

Our audit focused on assessing the reasonableness of the determination of cash generating units, which forms the basis for the goodwill impairment testing and assessing the appropriateness of management's judgments and estimates used in the goodwill impairment analysis. Our procedures relating to the impairment analysis included the following:

- We tested the methodology applied in the goodwill impairment analysis as compared to the requirements of IAS 36, Impairment of Assets;
- We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to the latest Board approved targets and long term plans;
- We tested the key underlying assumptions for the cash flow forecasts, including sales and profitability forecasts, discount rate used and the implied growth rates beyond the forecasted period;
- We compared the current year actual results included in the prior year impairment model to consider whether forecasts included assumptions that, with hindsight, had been optimistic; and
- We considered whether the sensitivity analysis performed by the management around key assumptions of the cash flow forecast was appropriate by considering the likelihood of the movements of these key assumptions.

Business combinations

Refer to accounting policies for the consolidated financial statements and note 2.

During 2017 Wartsilä acquired Greensmith Energy Management Systems Inc. in the US for a total consideration of € 144 million. The acquisition is accounted for as a business combination (IFRS 3) and includes a number of significant and complex judgments in the determination of the fair value of the assets and liabilities acquired.

The primary element of the valuation and purchase price allocation process was to assess the fair value of intangible assets (€ 42 million) in the form of technology and trademark related intellectual property. Resulting goodwill amounted to € 120 million. The allocation also considered other assets and liabilities. The purchase price allocation is reported as preliminary in the consolidated financial statements.

Business combinations is a key audit matter in the audit due to the high level of management judgement used in determining the fair value for the net assets acquired.

For the intangible assets, we assessed the methodology adopted by management for calculating the fair value of technology and trademark related assets. We also audited the key assumptions in the valuation model, particularly in respect of the:

- cash flow forecasts used in the valuation process;
- royalty rates assumed for the acquired technology and trademark;
- assumed useful lives of the technology and the trademark; and
- discount rate applied in the fair valuations.

Valuation of trade receivables

Refer to accounting policies for the consolidated financial statements and notes 16 and 29.

Net trade receivables amount to € 1 416 million, including an impairment provision of € 62 million. The trade receivables include € 109 million long-term trade receivables.

Trade receivables are recognised at their anticipated realisable value, which is the original invoiced amount less an estimated valuation allowance.

Valuation of trade receivables is a key audit matter in the audit due to the size of the trade receivable balance and the high level of management judgement used in determining the impairment provision.

For trade receivables and the management's estimations for trade receivables impairment provision, our key audit procedures included the following:

- We obtained trade receivables balance confirmations;
- We analysed the aging of trade receivables; and
- We obtained a list of long outstanding receivables and assessed the recoverability of these through inquiry with management and by obtaining sufficient corroborative evidence to support the conclusions.

We have no key audit matters to report with respect to our audit of the parent company financial statements. There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 2 March 2017.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable funds is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO should be discharged from liability for the financial period audited by us.

Helsinki 30 January 2018

PricewaterhouseCoopers Oy

Authorised Public Accountants

Tomi Hyryläinen

Authorised Public Accountant (KHT)